中國海外宏洋集團有限公司
CHINA OVERSEAS GRAND OCEANS GROUP LTD.

Stock Code 股份代號: 00081

凝心聚力
闊步前行
TOGETHER WE ADVANCE

Interim Report 2018
中期報告

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CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Yan Jianguo

EXECUTIVE DIRECTORS

Zhang Guiqing *Chief Executive Officer*
Wang Man Kwan, Paul
Yang Lin

NON-EXECUTIVE DIRECTOR

Yung Kwok Kee, Billy *Vice Chairman*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chung Shui Ming, Timpson
Lam Kin Fung, Jeffrey
Lo Yiu Ching, Dantes

AUTHORIZED REPRESENTATIVES

Yan Jianguo
Zhang Guiqing
Wang Man Kwan, Paul *(Alternate Authorized Representative to Zhang Guiqing)*

AUDIT COMMITTEE

Chung Shui Ming, Timpson*
Lam Kin Fung, Jeffrey
Lo Yiu Ching, Dantes

REMUNERATION COMMITTEE

Lam Kin Fung, Jeffrey*
Yung Kwok Kee, Billy
Chung Shui Ming, Timpson
Lo Yiu Ching, Dantes
Zhang Guiqing

NOMINATION COMMITTEE

Lo Yiu Ching, Dantes*
Chung Shui Ming, Timpson
Lam Kin Fung, Jeffrey
Yan Jianguo

* *Committee Chairman*

Corporate and Shareholders' Information

CORPORATE INFORMATION

Registered Office

Suites 701–702, 7/F., Three Pacific Place
1 Queen's Road East, Hong Kong
Telephone : (852) 2988 0600
Facsimile : (852) 2988 0606
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COMPANY SECRETARY

Edmond Chong

SHARE REGISTRAR

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Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong
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LEGAL ADVISOR

Mayer • Brown

AUDITOR

BDO Limited
Certified Public Accountants

PRINCIPAL BANKERS

(In Alphabetical Order)
Agriculture Bank of China Limited
Agriculture Bank of China Ltd., Hong Kong Branch
Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
Bank of Shanghai Co. Ltd.
China Bohai Bank Co., Ltd.
China Construction Bank Corporation
China Merchants Bank Co., Ltd.
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Nanyang Commercial Bank (China) Limited
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
Wing Lung Bank Limited

SHAREHOLDERS' INFORMATION

Share Listing

The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ordinary Shares (as at 30 June 2018)

Shares outstanding 3,423,359,841 shares

STOCK CODE

Shares

Stock Exchange : 00081
Bloomberg : 81:HK
Reuters : 0081.HK

INVESTOR RELATIONS

Corporate Communications Department
Telephone : (852) 2988 0600
Facsimile : (852) 2988 0606
E-mail : cogo.ir@cohl.com

PUBLIC RELATIONS

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FINANCIAL CALENDAR

2018 interim results announcement	22 August 2018
Ex-dividend date	5 September 2018
Closure of Register of Members	7 September 2018
Record date	7 September 2018
Despatch of dividend warrants	11 October 2018

INTRODUCTION

I am pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018. The Group's unaudited consolidated profit attributable to owners of the Company for the first half of 2018 was HK$1,014.2 million (the corresponding period in 2017: HK$712.1 million), representing an increase of 42.4% over the corresponding period last year. Basic earnings per share were HK31.5 cents.

In the first half of the year, with supply-side structural reform delivering progress, China has maintained steady economic growth and high quality development. The property market also remained largely stable amid the continuous launch of cooling measures by the government in the cities and regions where the markets were overheat. On the other hand, as affected by the marco-economic environment such as trade frictions between China and the United States, volatility of exchange rate of Renminbi ("RMB") and the tightened market liquidity, operating environment has been challenging.

Facing the extremely complex and dynamic environment, the Group actively enhanced its capital base and strengthened its financial position in the past six months. In February 2018, thanks to the overwhelming support of the shareholders, the Group raised a net proceeds of HK$4,607.7 million (net of expenses) by way of rights issue on the basis of one rights share for every two shares. In June 2018, the Group successfully completed the issuance of a 3-year US$500 million guaranteed notes. Through the exercises, the Group not only has secured its refinancing funding needs but also has improved its financial muscles to propel its business plan. The proceeds from the rights issue and the guaranteed notes issuance laid down a more solid foundation of the strategic framework of the Group.

While adhere firmly to its prudent investment principle, the Group kept its rhythm for business expansion and continued to monitor land acquisition opportunities in the market so as to acquire projects with reasonable returns for persisted growth. During the past six months, the Group extended its business to two new cities with high growth potential, which were Liuzhou, Guangxi province and Baotou, Inner-Mongolia. The Group bagged a total of nine parcels of land in the period in Liuzhou, Yancheng, Baotou, Lanzhou, Nantong, Hefei and Ganzhou with a total development area of 2,010,800 square meter (sq.m.) (attributable to the Group: 1,729,400 sq.m.). As at 30 June 2018, total land bank of the Group and its joint ventures in China reached 19,875,400 sq.m., of which, 353,700 sq.m. is held by joint ventures. The land bank attributable to the Group (including the interests in joint ventures) is 18,399,000 sq.m.. The Group held a land bank distributed in 20 cities as at 30 June 2018.

RESULTS

For the first half year ended 30 June 2018, contracted property sales of the Group and its associates and joint ventures was HK$28,454.0 million (the corresponding period in 2017: HK$18,473.0 million), for an aggregated area of 2,263,500 sq.m. (the corresponding period in 2017: 1,735,900 sq.m.), (in which, HK$806.6 million for an aggregated area of 39,800 sq.m. [the corresponding period in 2017: HK$3,408.7 million for area of 195,400 sq.m.] was contributed from associates and joint ventures) representing an increase of 54.0% and 30.4% respectively against the same period last year. As at 30 June 2018, the balance of preliminary sales pending the completion of sales and purchase agreements was HK$607.0 million (30 June 2017: HK$1,372.0 million) for an aggregated area of 38,800 sq.m. (30 June 2017: 103,200 sq.m.).

The Group attained a turnover of HK$11,188.5 million (the corresponding period in 2017: HK$9,029.2 million) for the period, representing an increase of 23.9% over the corresponding period last year. Profit attributable to owners of the Company for the period reached HK$1,014.2 million (the corresponding period in 2017: HK$712.1 million), 42.4% higher than the same period last year. Having accounted for the impact of rights issue, basic earnings per share was also up 4.8% comparing with the corresponding period last year, to HK31.5 cents (the restated basic earnings per share for the corresponding period in 2017: HK30.0 cents).

INTERIM DIVIDEND

After reviewing the result performance for the period and working capital requirements for the Group's future expansion of its business, the board of directors (the "Board") declared an interim dividend of HK3 cents per share (the corresponding period in 2017: HK1 cent per share).

PROSPECTS

The Economy

At present, despite the pressure on China's exports and economic growth stemming from the Sino-United States trade dispute, China's economic growth is showing strong resilience and fulfilling its great potential, while the fundamental trend of domestic demand remains unchanged. It is anticipated that in the second half of the year, the mainland China economy will continue to grow moderately to very quickly, as the global economy maintains its strong recovery.

PROSPECTS *(continued)*

Real Estate Development

In the first half of 2018, property controlling policies have been launched in major third-tier cities. With the adoption of different policies customized to different cities, the measures for some cities, which focused on both controls and de-stocking, were relatively moderate and the impacts on the markets were relatively mild. Due to the relatively less stringent policy environment, demands from local home buyers and needs for property upgrade in these markets released effectively. In addition, with the spillover of home buyers from first- and second-tier cities and the advancement of urbanization, the policy and price advantages of third-tier cities further enhanced their attractiveness to the residents of neighboring towns to move in and led to the increase in proportion of foreign residents.

During the year, the Ministry of Housing and Urban-Rural Development proposed to revise the shantytowns redevelopment policies. Of which, the shantytowns rebuilding projects would be undertaken according to the local market conditions that for cities with insufficient housing inventories and high pressure on rise in home price, targeted and timely adjustments would be made to the resettlement policies by offering houses as the compensation; for cities with high level of housing inventories, financial compensation for the rebuilding projects would continue to offer; and the scope and standards of shantytowns redevelopment projects would be further defined and mastered. It is expected that the relevant policies will impact the relationships of market supply and demand in the second half of the year. The benefits brought by the previous monetary compensation policy will gradually reduce but the extent of its impact remains to be seen.

On 31 July, the Central Government proposed to "resolve the problems of the real estate market; continue to apply city-specific policies; promote balanced supply and demand; manage expectations, regulate the property market and hold down prices". The Group expects to see tighter regulation and control of the real estate market in the second half of the year, likely depressing prices and sales and potentially stimulating market volatility. At the same time, the Central Government emphasized "stabilizing employment, finance, foreign trade, foreign investors, foreign investment and future tasks". The Group believes that stabilizing the economy and moderating the vicissitudes of the real estate market are goals of macro-economic policy and real estate regulatory policy. The aim is to promote a long-term mechanism for housing with multiple sources of supply that delivers secure housing affordability through a variety of channels, encouraging both housing purchases and rentals. In this way, the real estate market in China will be guided to stable and healthy development, giving the Group great confidence in its medium- and long-term prospects.

Amid the continual progress of urbanization, the housing demands of immigrants from the nearby cities will continue to release while the local demands and needs for upgrade will be steady. The property market of third-tier cities will remain stable in general.

PROSPECTS *(continued)*

Group Strategy

The Group is committed to achieve sustainable, stable and healthy quality growth in the property market in China. The successful completion of the rights issue and the issuance of guaranteed notes significantly strengthened the financial position of the Group and enhanced its capability to expand the operating scale to capture more business and investment opportunities.

Fully embraced the government's urbanization and long-term housing policy, the Group will continue to focus on the emerging cities with the best investment value and growth potentials, and stick to the position of offering middle to high-end product ranges of residential properties.

With the improved capital base and financial strength, the Group closely monitors the opportunities in property market and keep its pace for continuous expansion. To extend its footprint, the Group actively explores to penetrate into new cities with high growth potential. As a reputable property developer in the market, the Group believes that it is of paramount importance to build up and maintain a scaled high quality land bank at competitive prices for sustainable growth and maximizing shareholders' returns in long term.

While dedicated to enlarge its operating scales, the Group stands firmly to its prudent, cautious and dynamic adjusted investment strategy in order to ensure the business development in an orderly manner. The Group will continue to seek for business opportunities with investment value and good returns at appropriate and sustainable capital and debt structure. On top of open market land auctions, the Group will further assess diversified land acquisition opportunities in order to maintain a balanced land bank with reasonable investment returns. For right property projects, the Group will consider to develop jointly with reliable business partners to broaden its earnings base and balance its risk.

Adhere firmly to the principle of customer-oriented, the Group dedicates to providing customers with good products and services. The Group will adopt various measures to continuously improve the quality of its products and services and enhance customer satisfaction and loyalty in order to accumulate loyal customers for sustainable development of the Group in the future.

PROSPECTS *(continued)*

Group Strategy *(continued)*

The Group will continue to attach greater weight to research and development of products so as to seize opportunities in the consumption upgrade of the property industry. The Group will target the demand from customers for high-value or upgraded products and enhance value of the products with application of technologies of low-carbon, environmental protection and intelligence technologies to maintain the Group's leading profitability. Balancing product standardization and innovations, the Group will introduce differentiated products to lead the market and satisfy the increasing demands of the customers.

On the foundation of the extensive experience in managing property development projects in emerging cities in China and the standardized operation systems, the Group continues to work hard to streamline its operating processes, reinforce its internal controls, tighten its cost controls and strengthen its risk management system. In addition, the Group has applied digital control platform and scientific decision making system to further excel project management process in response to the fast-changing business and regulatory requirements.

To cope with the increasing market competition, continual investment and extra efforts will be made by the Group to broaden the range of property products, optimize the project development cycle, enhance the quality of the properties and improve customer services. The Group is devoted to evolve new marketing methodologies and strategies, speed up sales programs and promote the sell-through rate of the inventory.

The Group will maintain a professional and prudent financial management of the financial resources and continue to enhance its financial management capability. In view of the volatile financial market, debt structure and profile will be reviewed regularly and optimized continuously. The Group will also closely monitor the impacts from the external political and economic environment, volatility of exchange rate of RMB, and national policy changes to the business operations.

PROSPECTS *(continued)*

Group Strategy *(continued)*

The Group regards talent capital amongst the essences to success and continuous development of its business. The Group will enhance the care services for staff as well as the training and development of diversified talents, establish an open and inclusive system for recruitment and provide a diversified and customized career path for all level of staff members working in different areas. In addition, the Group will continue to optimize its competitive remuneration package for staff for continual building of a professional, dedicated and high-effective team.

APPRECIATION

I would like to take this opportunity to express my heartfelt thanks to my fellow directors and our committed staff for their dedication, hard work and contributions to the Group, and our shareholders and business partners for their continued confidence and support.

Yan Jianguo
Chairman and Non-executive Director

Hong Kong, 22 August 2018

REVENUE AND OPERATING RESULTS

In the first half of the year, the property market of China remained steady. With the continual implementation of the accelerated pre-sales plan, the contracted property sales of the Group and its associates and joint ventures for the first half year reached HK$28,454.0 million, increased by 54.0% against the same period last year, in which, HK$806.6 million (the corresponding period in 2017: HK$3,408.7 million) was contributed from associates and joint ventures. The development progress and the handover schedule of the property of each project are on track. The Group's revenue for the six months ended 30 June 2018 reached HK$11,188.5 million, increased by 23.9% against the corresponding period last year. Furthermore, thanks to stable market environment and active property markets in certain cities in which the Group's projects are located, gross profit for the period was HK$2,768.2 million, 46.4% higher than the same period last year while gross profit margin for the period increased by 3.8% to 24.7%.

In terms of expenses, distribution and selling expenses for the period increased by HK$54.9 million against the same period last year to HK$343.4 million. Despite the significant increase in contracted property sales for the current period, the ratio of distribution and selling expenses to the Group's contracted property sales still maintained at the low level of 1.2%. In addition, as the operating scale has been expanding gradually, administrative expenses for the period, increased by HK$55.6 million against the same period last year to HK$312.5 million. The ratio of the administrative expenses to revenue maintained at 2.8%, almost the same as the last corresponding period. The Group continued to exercise stringent controls over the overhead costs.

Same as the last corresponding period, no fair value adjustment was recognized in respect of the investment properties in the period. Sales of China Overseas Building located in Jilin, in form of sub-units, continued and the units were handover to the buyers gradually during the period. As such, the Group recognized a profit before taxation of HK$711,000 (the corresponding period in 2017: HK$214,000) from the disposal.

As the US Federal Reserve raised interest rates twice during the period, the Group's three-year term interest rate swap contract with notional amount of US$40.0 million (swap the interest rate from floating basis of 3-month London Interbank Offered Rate plus 1.515% to fixed rate at 3.2% per annum), recognized a fair value gain of a derivative financial instrument of HK$3.4 million (the corresponding period in 2017: a fair value loss of HK$492,000) in the income statement for the period.

REVENUE AND OPERATING RESULTS *(continued)*

Driven by a rise in gross profit, operating profit amounted to HK$2,275.9 million for the current period under review, an increase of 61.5% comparing with the same period last year.

Total interest expenses for the period increased by HK$26.2 million to HK$613.6 million from HK$587.4 million of last corresponding period, mainly driven by the rise in the overall borrowing rate and the issuance of a 3-year US$500 million guaranteed notes at coupon rate of 4.875% by the Group in June 2018. Finance costs slightly increased to HK$17.2 million from HK$15.5 million of last corresponding period, after capitalization of HK$596.4 million to the on-going development projects.

In the first half of the year, share of profit of joint ventures amounted to HK$111.8 million resulted from profit recognition of the projects held by the joint ventures during the period.

Income tax expenses comprised enterprise income tax and land appreciation tax. The income tax expenses increased by HK$620.4 million, as compared with the same period last year, mainly due to rise in profit margin as driven by the improvement in the average gross profit margin of the projects. Moreover, the effective tax rate of the period increased as the Group acquired the property portfolio from China Overseas Land & Investment Limited ("COLI") at fair value in December 2016 and the effective tax rate increased when profit recognized from the relevant projects.

For the half year ended 30 June 2018, profit attributable to owners of the Company amounted to HK$1,014.2 million (the corresponding period in 2017: HK$712.1 million), an increase of 42.4% against last corresponding period.

LAND BANK

With its prudent expansion strategy, the Group kept on closely monitoring the market situation and searched for suitable land pieces for development. In the first half year, the Group continued to extend its business to two new cities with high growth potential, which were Liuzhou, Guangxi province and Baotou, Inner-Mongolia. The Group bagged a total of nine parcels of land in the period in Liuzhou, Yancheng, Baotou, Lanzhou, Nantong, Hefei and Ganzhou with a total development area of 2,010,800 sq.m. (attributable to the Group: 1,729,400 sq.m.) for a total consideration of approximately RMB8,787.4 million. As at 30 June 2018, total land bank of the Group and its joint ventures in China reached 19,875,400 sq.m., of which, 353,700 sq.m. is held by joint ventures. The land bank attributable to the Group (including the interests in joint ventures) is 18,399,000 sq.m.. The Group held a land bank distributed among 20 cities as at 30 June 2018.

The Group continues to monitor market opportunities of its existing cities and explore into new cities in China with growth potential and best investment value.

SEGMENT INFORMATION

Property Sales and Development

The Group continuously targets at boosting sales and improving the sales-through rate. During the six months ended 30 June 2018, with stable market environment, contracted property sales of the Group and its associates and joint ventures amounted to HK$28,454.0 million, for an aggregated area of 2,263,500 sq.m., (in which, HK$806.6 million for an aggregated area of 39,800 sq.m. [the corresponding period in 2017: contracted property sales amounted HK$3,408.7 million for area of 195,400 sq.m.] was contributed from associates and joint ventures) representing an increase of 54.0% and 30.4% respectively against the same period last year. Besides, as at 30 June 2018, the balance of preliminary sales pending the completion of sales and purchase agreements was HK$607.0 million (30 June 2017: HK$1,372.0 million) for an aggregated area of 38,800 sq.m. (30 June 2017: 103,200 sq.m.).

SEGMENT INFORMATION *(continued)*

Property Sales and Development *(continued)*

Contracted property sales from major projects during the half year ended 30 June 2018:

City	Name of project	Saleable Gross Floor Area (sq.m.)	Amount (HK$ Million)
Nantong	Central Mansion	124,577	3,257.8
Huizhou	CITIC Harbour City/CITIC Triumph Town	246,459	3,137.1
Shantou	La Cite/CITIC Huating	280,200	2,749.5
Weifang	Da Guan Tian Xia	204,278	2,226.3
Nanning	International Community	182,764	2,104.9
Yangzhou	Yangzhou Jiajing/Yangzhou Jinyuan/Glory Manor	134,258	1,885.6
Ganzhou	One Riverside Park#/The Cullinan#	100,784	1,850.4
Yancheng	The Glorious	132,967	1,735.9
Xining	Glorioushire#	173,872	1,644.0
Hefei	Coli City/Central Mansion*	77,488	1,506.9
Jilin	International Community	113,769	1,065.2
Yinchuan	International Community	137,843	1,047.5

* The project is held by the joint venture of the Group

\# Construction work of these projects commenced during the period

As at 30 June 2018, construction works for 972,600 sq.m. (saleable gross floor area: 809,000 sq.m.) of the Group were completed and of which, about 98% of saleable gross floor area were sold out. Coupled with stock sales, recognized revenue was HK$11,033.6 million (the corresponding period in 2017: HK$8,904.0 million), an increase of 23.9% comparing with the same period last year. Excluding the RMB currency translation effect, the recognized revenue increased by 14.0% compared with the last corresponding period. During the period, around 25% of the revenue was generated from the property portfolio acquired from COLI as mentioned above. Same as last year, the revenue for the current period was mainly recognized from the sales of high-rise residential projects.

Benefited from the favorable sentiment of property market, the average selling price of the properties handover during the period increased, which drove the surge of the gross profit margin of property sales from 20.3% of the last corresponding period to 24.2%. The gross profit margins of the properties acquired from COLI were also in line with the management's expectation.

SEGMENT INFORMATION *(continued)*

Property Sales and Development *(continued)*

Currently, the Group holds two projects under construction by joint ventures in Hefei and Shantou respectively. The project development progresses are satisfactory. Certain inventories of properties are also held by associates, which have been selling continuously. During the period, the net profit from the property sales business of the joint ventures and associates was HK$112.0 million (the corresponding period in 2017: net loss of HK$16.6 million).

The segment result reached HK$2,335.3 million (the corresponding period in 2017: HK$1,347.9 million) for the period.

Recognized revenue from major projects during the half year ended 30 June 2018:

City	Name of project	Saleable Gross Floor Area (sq.m.)	Amount (HK$ Million)
Yangzhou	Yangzhou Jiajing/The Grand Canal/Yangzhou Jinyuan	129,323	1,657.2
Shantou	La Cite	191,256	1,561.1
Jilin	International Community	152,408	964.1
Ganzhou	International Community	60,935	901.6
Yancheng	The Glorious	48,167	756.6
Weifang	Da Guan Tian Xia	113,830	755.3
Hohhot	Dragon Cove/The Azure	52,927	677.1
Nantong	The Aqua/Central Mansion	64,140	638.6
Lanzhou	Glorioushire	67,514	553.2
Nanning	Royal Lakefront/International Community	41,131	458.5

In addition to the projects commenced construction work during the period as mentioned above, Eternal Treasure (previously named as "Guangling District Project") at Yangzhou and Grand Polis (previously named as "Hanjiang District Project") at Yangzhou had also commenced the construction work during the period.

At period end, properties under construction and stock of completed properties of the Group amounted to 6,679,600 sq.m. and 891,700 sq.m. respectively, totaling 7,571,300 sq.m.. Properties of 3,794,100 sq.m. had been contracted for sales and were pending for completion of the transactions upon handover.

SEGMENT INFORMATION *(continued)*

Property Leasing

The leasing business remained stable in general. For the period ended 30 June 2018, rental income amounted to HK$125.9 million (the corresponding period in 2017: HK$98.8 million), a rise of 27.4% comparing with the same period last year. Excluding the RMB currency translation effect, it was mainly driven by increase of average rental rate in the period. As described above, approximate 86% of the gross floor area of China Overseas Building located in Jilin was sold and handover cumulatively, in the form of sub-units. Profit contribution from a joint venture with the leasing business amounted to HK$2.9 million (the corresponding period in 2017: HK$2.2 million) for the period. In total, the segment profit increased by HK$11.9 million to HK$81.8 million from HK$69.9 million of the same period last year.

At period end, the occupancy rates for China Overseas International Center in Xicheng District, Beijing and the scientific research office building in Zhang Jiang High-tech Zone in Shanghai were about 90% and 93% respectively. The Group fully owns the Beijing property while it owns 65% of the Shanghai project.

FINANCIAL RESOURCES AND LIQUIDITY

The Group has consistently adopted prudent financial management approach and its financial condition remained healthy. Having worked hard over the past few years, the Company and its subsidiaries have gained multiple accesses to funds from both investors and financial institutions in China and international market to meet its requirements for working capital, refinancing and project development. The Group actively enhanced its capital base and strengthened its financial position in the period under review. In February 2018, the Group successfully raised a net proceeds of HK$4,607.7 million (net of expenses) by way of rights issue on the basis of one rights share for every two shares. In June 2018, the Group successfully completed the issuance of a 3-year US$500 million guaranteed notes.

As at 30 June 2018, net working capital amounted to HK$44,486.7 million (31 December 2017: HK$35,204.0 million), with a quick ratio of 0.8 (31 December 2017: 0.6).

During the six months ended 30 June 2018, the Group secured new credit facilities of approximately HK$6,734.1 million from leading financial institutions. After taking into account drawdowns of HK$5,918.0 million, repayment of loans of HK$4,726.5 million and decrease of HK$151.6 million due to translation of RMB loan during the period, total bank and other borrowings (exclude the guaranteed notes payable of HK$7,124.7 million) increased by HK$1,039.9 million to HK$25,251.7 million as compared to the end of last year.

FINANCIAL RESOURCES AND LIQUIDITY *(continued)*

Of the total bank and other borrowings, RMB loan amounted to RMB9,696.6 million (equivalent to HK$11,501.1 million) while the Hong Kong Dollar loan and US Dollar loan amounted to HK$10,283.0 million and HK$3,467.6 million respectively. As at period end, interests of borrowings amounted to HK$2,215.9 million were charged at fixed rate from 3.42% to 3.80% while the remaining borrowings of HK$23,035.8 million were charged at floating rates with a weighted average of 4.43% per annum. About 86.6% of bank and other borrowings is repayable beyond one year.

During the year, trade frictions between China and the United States escalated, market liquidity tightened and the business environment remained complicated and volatile. The market expects that the interest rate of US Dollar will continue to rise and the financial market may experience violent fluctuations in the second half of the year, which will further tighten the liquidity and raise the borrowing cost. In order to ensure sufficient liquidity, the Group actively sought for financing opportunities. As mentioned above, in June 2018, the Group completed the issuance of a US$500 million 4.875% guaranteed notes due in 2021. The proceeds from the issuance will mainly be used for the repayment of US$400 million 5.125% guaranteed notes due in next January. The total amortized cost payable of the guaranteed notes amounted to HK$7,124.7 million as at 30 June 2018.

Also, properties sales for the period increased significantly and sales deposits collection was satisfactory. Together with the proceeds raised during the period from the rights issues and guaranteed notes issuance, cash and bank balances plus restricted cash and deposits were at a total of HK$32,321.5 million (31 December 2017: HK$23,702.3 million), increased by 36.4% compared with the last financial year end. Of which, 83.5% is denominated in RMB while the remaining are in US Dollar (11.5%) and Hong Kong Dollar (5.0%).

As a result of the initial adoption of HKFRS 15 during the period, the opening balance of the owner's equity of the Company as at 1 January 2018 has an one-off adjustment of an increase of HK$448.9 million. In addition, the Group has undertaken a rights issue on the basis of one rights share for every two shares held, with a share price of HK$4.08 per share. The net proceeds successfully raised in February 2018 were HK$4,607.7 million (after deducting the expenses of approximately HK$48.1 million) which increased the interests of the owner of the Company accordingly.

FINANCIAL RESOURCES AND LIQUIDITY *(continued)*

With the increase in interests of the owners of the Company and cash in the period, the net gearing ratio, expressed as a percentage of net debts (i.e. total borrowings, including the guaranteed notes payable aforesaid, net of cash and bank balances and restricted cash and deposits) to equity attributable to owners of the Company, was 0.3% as at 30 June 2018 (31 December 2017: 26.8%). The management believes that the Group can further expand its operation scale under such low net gearing ratio level and solid financial position.

Taking into consideration of the unutilized bank credit facilities available to the Group of HK$6,264.9 million, the Group's total available funds (including restricted cash and deposits of HK$9,086.9 million) reached HK$38,586.4 million as at 30 June 2018.

In terms of capital management, the Group implements centralized financing and treasury policies to ensure efficient fund utilization. The operational and financial position of the Group remains healthy. The Group would ensure continual fulfillment of the financial covenants as agreed with different financial institutions and sufficient resources to satisfy its commitment and working capital needs. Regarding the proceeds raised from the above-mentioned rights issue, approximately HK$2.75 billion and HK$0.21 billion of the proceeds have been applied for repayments of bank loans and general working capital respectively as at 30 June 2018. Currently, the Group sticks to its plan on the use of the proceeds as disclosed in the prospectus issued in January 2018.

The Group regularly re-evaluates its operational and investment status, monitors the financial market and explores opportunities to enter into appropriate long-term financing to improve its capital structure continuously. The Group would maintain its healthy cash flow and minimize its financial risks.

FOREIGN EXCHANGE EXPOSURE

As the Group conducted its sales, receivables and payables, expenditures and part of the borrowings in RMB for its property development business in China, the management considered a natural hedge mechanism existed in that operations. As at 30 June 2018, about 35.5% and 64.5% (31 December 2017: 32.6% and 67.4%) of the Group's total borrowings (including the guaranteed notes) were denominated in RMB and Hong Kong Dollar/US Dollar respectively. Hence, take into account of the debt financing structure, the Group is subject to foreign exchange risk from the volatility of RMB exchange rate.

FOREIGN EXCHANGE EXPOSURE *(continued)*

The exchange rate of RMB to Hong Kong Dollar depreciated around 0.9% in the period and accordingly, the net asset value of the Group decreased by HK$346.1 million which arose from currency translation.

Except for the aforesaid interest rate swap contract, the Group has not entered into any financial derivatives for hedging or speculative purpose during the period. The Group would continue to closely monitor the volatility of the RMB exchange rate. In consideration of the lower finance costs for borrowings in Hong Kong Dollar/US Dollar, the management, after balancing the finance cost and risks, would continue to fine-tune the financing strategy gradually to optimize the ratio of RMB and Hong Kong Dollar/US Dollar debt at appropriate time to minimize the foreign exchange risk.

COMMITMENTS AND GUARANTEE

As at 30 June 2018, the Group had commitments totaling HK$10,889.0 million which related mainly to land premium and property development and construction works. In addition, the Group issued guarantees to banks amounting to HK$30,777.4 million (equivalent to RMB25,948.4 million) in aggregate, for facilitating end-user mortgages in connection with its property sales in China as a usual commercial practice and a credit facility granted to a joint venture.

CAPITAL EXPENDITURE AND CHARGES ON ASSETS

The Group had capital expenditures totaling HK$54.8 million approximately during the current period, mainly referred to additions in hotel construction in progress.

On the other hand, as at 30 June 2018, certain property assets in China with aggregate carrying value of HK$618.7 million were pledged to obtain HK$265.1 million (equivalent to RMB223.5 million) of secured borrowings from certain banks in China for the projects.

EMPLOYEES

As at 30 June 2018, the Group has 2,029 employees (31 December 2017: 1,855). The total staff costs incurred for the period was approximately HK$313.1 million (the corresponding period in 2017: HK$270.7 million). The pay levels of these employees are commensurate with their responsibilities, performance and the prevailing market condition. Discretionary bonus was paid to employees based on individual performance. Different trainings and development opportunities continued to be offered to enhance employees' capabilities.

Condensed Consolidated Income Statement

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 and the comparative figures for the corresponding period in 2017 are as follows:

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	 2017 (Unaudited) HK$'000
Revenue	4	**11,188,533**	9,029,187
Cost of sales and services provided		**(8,420,289)**	(7,138,608)
Gross profit		**2,768,244**	1,890,579
Other income	6	**165,482**	67,008
Distribution and selling expenses		**(343,380)**	(288,433)
Administrative expenses		**(312,452)**	(256,816)
Other operating expenses		**(6,135)**	(2,690)
Other gains/(losses)			
Gain on disposal of investment properties		**711**	214
Change in fair value of a derivative financial instrument	17	**3,407**	(492)
Operating profit		**2,275,877**	1,409,370
Finance costs	7	**(17,180)**	(15,500)
Share of results of associates		**3,050**	(1,198)
Share of results of joint ventures		**111,811**	(13,163)
Profit before income tax	8	**2,373,558**	1,379,509
Income tax expense	9	**(1,293,324)**	(672,920)
Profit for the period		**1,080,234**	706,589
Profit/(Loss) for the period attributable to:			
Owners of the Company		**1,014,212**	712,076
Non-controlling interests		**66,022**	(5,487)
		1,080,234	706,589
		HK Cents	HK Cents (Restated)
Earnings per share	11		
Basic		**31.5**	30.0
Diluted		**31.5**	30.0

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Profit for the period	**1,080,234**	706,589
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising from translation of overseas operations		
— subsidiaries	**(342,412)**	963,567
— associates	**4,245**	2,182
— joint ventures	**(7,904)**	12,294
Other comprehensive income for the period, net of tax	**(346,071)**	978,043
Total comprehensive income for the period	**734,163**	1,684,632
Total comprehensive income attributable to:		
Owners of the Company	**675,392**	1,666,798
Non-controlling interests	**58,771**	17,834
	734,163	1,684,632

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Non-current assets			
Investment properties		**2,783,538**	2,835,203
Property, plant and equipment	12	**1,209,806**	1,187,437
Prepaid lease rental on land		**317,853**	325,367
Intangible assets		**5,748**	8,117
Interests in associates		**18,765**	135,907
Interests in joint ventures		**566,970**	449,129
Amount due from a joint venture		**302,456**	305,057
Available-for-sale financial assets		**1,186**	1,196
A derivative financial instrument	17	**5,381**	1,974
Deferred tax assets		**283,751**	345,958
		5,495,454	5,595,345
Current assets			
Inventories of properties		**56,982,720**	54,414,394
Other inventories		**2,077**	2,060
Trade and other receivables, prepayments and deposits	13	**14,197,981**	9,795,746
Contract assets	3	**11,980**	–
Prepaid lease rental on land		**9,480**	9,562
Amount due from an associate		**68,700**	68,094
Amounts due from non-controlling interests		**405,684**	353,678
Tax prepaid		**1,791,406**	1,382,614
Restricted cash and deposits		**9,086,890**	7,553,007
Cash and bank balances		**23,234,579**	16,149,246
		105,791,497	89,728,401
Current liabilities			
Trade and other payables	14	**9,730,267**	9,639,438
Contract liabilities	3	**38,004,123**	–
Sales deposits received	3	**–**	30,820,778
Amounts due to associates		**49,026**	176,876
Amounts due to joint ventures		**1,260,578**	1,234,203
Amounts due to non-controlling interests		**2,773,605**	613,424
Amounts due to related companies	16	**738,181**	4,852,569
Guaranteed notes payable	18	**3,204,138**	–
Taxation liabilities		**2,148,974**	2,276,077
Borrowings	15	**3,395,916**	4,911,049
		61,304,808	54,524,414
Net current assets		**44,486,689**	35,203,987
Total assets less current liabilities		**49,982,143**	40,799,332

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Non-current liabilities			
Borrowings	15	**21,855,831**	19,300,789
Amount due to a related company	16	**88,989**	89,754
Guaranteed notes payable	18	**3,920,562**	3,159,180
Deferred tax liabilities		**4,005,394**	3,786,595
		29,870,776	26,336,318
Net assets		**20,111,367**	14,463,014
Capital and reserves			
Share capital	19	**6,751,682**	2,144,018
Reserves		**12,554,696**	11,533,124
Equity attributable to owners of the Company		**19,306,378**	13,677,142
Non-controlling interests		**804,989**	785,872
Total equity		**20,111,367**	14,463,014

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company							
	Share Capital HK$'000	Translation reserve HK$'000	Assets revaluation reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017 (Audited)	2,144,018	(2,425,563)	31,749	890,558	9,781,165	10,421,927	763,373	11,185,300
Net profit/(loss) for the period	–	–	–	–	712,076	712,076	(5,487)	706,589
Other comprehensive income for the period	–	954,722	–	–	–	954,722	23,321	978,043
Total comprehensive income for the period	–	954,722	–	–	712,076	1,666,798	17,834	1,684,632
2016 final dividend approved (note 10)	–	–	–	–	(45,645)	(45,645)	–	(45,645)
Transactions with owners	–	–	–	–	(45,645)	(45,645)	–	(45,645)
At 30 June 2017 (Unaudited)	2,144,018	(1,470,841)	31,749	890,558	10,447,596	12,043,080	781,207	12,824,287
At 1 January 2018 (Unaudited)	**2,144,018**	**(373,279)**	**31,749**	**1,130,501**	**10,744,153**	**13,677,142**	**785,872**	**14,463,014**
Adjustment on adoption of HKFRS 15, net of tax (note 3)	**–**	**16,177**	**–**	**–**	**432,704**	**448,881**	**17,476**	**466,357**
Restated balance at 1 January 2018 (Unaudited)	**2,144,018**	**(357,102)**	**31,749**	**1,130,501**	**11,176,857**	**14,126,023**	**803,348**	**14,929,371**
Net profit for the period	**–**	**–**	**–**	**–**	**1,014,212**	**1,014,212**	**66,022**	**1,080,234**
Other comprehensive income for the period	**–**	**(338,820)**	**–**	**–**	**–**	**(338,820)**	**(7,251)**	**(346,071)**
Total comprehensive income for the period	**–**	**(338,820)**	**–**	**–**	**1,014,212**	**675,392**	**58,771**	**734,163**
Rights issue (note 19)	**4,655,769**	**–**	**–**	**–**	**–**	**4,655,769**	**–**	**4,655,769**
Share issue expenses (note 19)	**(48,105)**	**–**	**–**	**–**	**–**	**(48,105)**	**–**	**(48,105)**
Return of capital to non-controlling interests (note 23(b))	**–**	**–**	**–**	**–**	**–**	**–**	**(73,685)**	**(73,685)**
Contributions from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**16,555**	**16,555**
2017 final dividend approved (note 10)	**–**	**–**	**–**	**–**	**(102,701)**	**(102,701)**	**–**	**(102,701)**
Transactions with owners	**4,607,664**	**–**	**–**	**–**	**(102,701)**	**4,504,963**	**(57,130)**	**4,447,833**
At 30 June 2018 (Unaudited)	**6,751,682**	**(695,922)**	**31,749**	**1,130,501**	**12,088,368**	**19,306,378**	**804,989**	**20,111,367**

Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	 2017 (Unaudited) HK$'000
Net cash from operating activities		**79,783**	2,318,589
Investing activities			
Interest received		**147,764**	58,034
Purchase of property, plant and equipment	12	**(54,767)**	(1,636)
Capital contribution to a joint venture		**–**	(52,996)
Increase in amounts due from associates		**(1,230)**	(3,518)
Decrease in amounts due from joint ventures		**–**	176,196
Increase in amounts due from non-controlling interests	23(b)	**(130,724)**	–
Proceeds from disposal of property, plant and equipment		**–**	203
Proceeds from disposal of investment properties		**29,210**	3,180
Increase in short-term time deposits with maturity beyond three months but within one year		**(3,613,075)**	(4,561)
Settlement of consideration for acquisition		**–**	(1,912,695)
Net cash used in investing activities		**(3,622,822)**	(1,737,793)
Financing activities			
New borrowings		**5,917,980**	6,463,554
Repayment of borrowings		**(4,726,493)**	(3,927,465)
Net proceeds from issue of guaranteed notes	18	**3,904,715**	–
Share issue expenses	19	**(48,105)**	–
Proceeds from rights issue	19	**4,655,769**	–
Finance costs paid		**(593,748)**	(547,167)
Increase/(Decrease) in amounts due to non-controlling interests		**2,244,827**	(108,963)
(Decrease)/Increase in amounts due to associates	23(a)	**(6,538)**	17,515
Increase in amounts due to joint ventures		**38,251**	175,338
Decrease in amounts due to related companies		**(4,179,634)**	(2,766,520)
Contributions from non-controlling interests		**16,555**	–
Net cash generated from/(used in) financing activities		**7,223,579**	(693,708)
Net increase/(decrease) in cash and cash equivalents		**3,680,540**	(112,912)
Cash and cash equivalents at the beginning of period*		**15,536,625**	14,594,755
Effect of foreign exchange rate changes on cash and cash equivalents		**(202,586)**	430,053
Cash and cash equivalents at the end of period		**19,014,579**	14,911,896
Analysis of balances of cash and cash equivalents:			
Cash and bank balances as stated in the condensed consolidated statement of financial position		**23,234,579**	15,497,250
Less: Short-term time deposits with maturity beyond three months but within one year		**(4,220,000)**	(585,354)
Cash and cash equivalents at the end of period		**19,014,579**	14,911,896

* Cash and bank balances as stated in the condensed consolidated statement of financial position as at 31 December 2017 included short-term time deposits with maturity beyond three months but within one year in amount of HK$612,621,000.

Notes to the Condensed Financial Statements

1. GENERAL INFORMATION

China Overseas Grand Oceans Group Limited (the "Company") is a limited liability company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") and its shares are listed on the Stock Exchange. The address of the Company's registered office and principal place of business is Suites 701-702, 7/F., Three Pacific Place, 1 Queen's Road East, Hong Kong.

The principal activities of the Group mainly comprise property investment and development, property leasing and investment holding. The Group's business activities are principally carried out in certain regions in the PRC such as Ganzhou, Huizhou, Nanning, Nantong, Shantou, Weifang, Yancheng and Yangzhou.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Interim Financial Statements do not include all of the information required for annual financial statements and thereby they should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

The Interim Financial Statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated.

The financial information relating to the year ended 31 December 2017 that is included in this half-year interim report 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

1. GENERAL INFORMATION *(continued)*

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

The Interim Financial Statements are unaudited, but have been reviewed by the Audit Committee of the Company. The Interim Financial Statements were approved for issue on 22 August 2018.

2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared under the historical cost basis except for investment properties and derivative financial instruments, which are stated at fair value.

Income tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Save as described in above and note 3 "Adoption of new or revised Hong Kong Financial Reporting Standards ("HKFRSs")", the accounting policies used in preparing the Interim Financial Statements are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

3. ADOPTION OF NEW OR REVISED HKFRSs

3.1 Adoption of new or revised HKFRSs — effective 1 January 2018

The HKICPA has issued the following new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

3.1 Adoption of new or revised HKFRSs — effective 1 January 2018 *(continued)*

HKFRS 9 Financial Instruments

The new impairment model under HKFRS 9 (2014) requires the recognition of provision for impairment losses based on expected credit losses rather than incurred credit losses. There was no material change in the amount of provision for impairment losses required under the expected credit loss model compared with the incurred credit loss model, and there was no financial impact on such change at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

The Group adopted HKFRS 15 as issued by the HKICPA for the current period. The adoption of HKFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the condensed consolidated financial statements. HKFRS 15 replaces the provisions of HKAS 18 *Revenue* and HKAS 11 *Construction contracts* that relate to the recognition, classification and measurement of revenue and costs.

The Group elected to use a modified retrospective approach for transition which allows the Group to recognize the cumulative effects of initially applying HKFRS 15 as an adjustment to opening balance of retained profits as at 1 January 2018 without stating the comparative figures in prior year. The Group elected to adopt HKFRS 15 on the contracts on 1 January 2018.

The effects of the adoption of HKFRS 15 are as follows:

Accounting for property development activities

In prior reporting periods, the Group recognized revenue for property sales when significant risk and rewards of ownership had been transferred to the customers on delivery at a single time and not continuously as construction progresses.

Under HKFRS 15, the Group determines whether the properties have no alternative use to the Group due to contractual reasons and whether the Group has an enforceable right to payment from the customer for performance completed to date.

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

3.1 Adoption of new or revised HKFRSs — effective 1 January 2018 *(continued)*

HKFRS 15 Revenue from Contracts with Customers *(continued)*

Accounting for property development activities (continued)

- When the properties that have no alternative use to the Group due to contractual reasons and the Group does not have an enforceable right to payment from the customer for performance completed to date, the Group recognizes revenue at a point in time when the performance obligations are satisfied and the ownership has been transferred to the customers.

- The timing of revenue recognition for sales of inventories of properties were previously based on when the significant risk and rewards of ownership has been transferred, while currently based on point of time that the legal or physical form are transferred to customers.

- When the properties that have no alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date, the Group recognizes revenue as the performance obligations are satisfied over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognized in profit or loss over the cumulative billings to purchasers of properties is recognized as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognized in profit or loss is recognized as contract liabilities.

Accounting for costs incurred to obtain a contract

Following the adoption of HKFRS 15, costs such as stamp duty and sales commissions incurred directly attributable to obtaining a property sales contract, if expected to be recoverable, are capitalized and recorded in contract assets.

3. ADOPTION OF NEW OR REVISED HKFRSs (continued)

3.1 Adoption of new or revised HKFRSs — effective 1 January 2018 (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Accounting for significant financing component

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

Presentation of contract liabilities

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15: Contract liabilities for billing according to progress or delivery in relation to property development activities were previously presented as sales deposit received.

The impact on the Group's financial position by the application of HKFRS 15 is as follows:

	As at 1 January 2018			
	As previously stated HK$'000	Reclassifications under HKFRS 15 HK$'000	Adjustments under HKFRS 15 HK$'000	Restated HK$'000
Consolidated statement of financial position (extract)				
Interests in joint ventures	449,129	–	13,934	463,063
Deferred tax assets	345,958	–	(12,823)	333,135
Inventories of properties	54,414,394	–	(1,552,270)	52,862,124
Contract assets	–	–	7,134	7,134
Trade and other payables	9,639,438	–	213,797	9,853,235
Sales deposits received	30,820,778	(30,820,778)	–	–
Contract liabilities	–	30,820,778	(2,641,114)	28,179,664
Deferred tax liabilities	3,786,595	–	416,935	4,203,530
Translation reserve	(373,279)	–	16,177	(357,102)
Retained profits	10,744,153	–	432,704	11,176,857
Non-controlling interests	785,872	–	17,476	803,348

3. ADOPTION OF NEW OR REVISED HKFRSs (continued)

3.2 New or revised HKFRSs that have been issued but not yet effective

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

HKFRS 16	Leases*

* Effective for annual periods beginning on or after 1 January 2019

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases* and related interpretations, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$63,849,000. The directors have performed a preliminary assessment and consider that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will need to perform further analysis to determine the amounts of new right-of-use asset and lease liabilities to be recognized, after taking into account the applicable practical expedients and relief. The Group will recognize a right-of-use asset and a corresponding lease liability in respect of the leases except for those qualify for low value or short-term leases upon the application of HKFRS 16. According to existing information, the directors do not expect that the new standard to have a material impact on the results and the financial position of the Group.

The Group has not applied any new or revised standards that have been issued but are not yet effective for the current accounting period. Except for the above, other new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's results and financial position upon application.

4. REVENUE

The principal activities of the Group are disclosed in note 1. Revenue from the Group's principal activities recognized during the period is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of properties	**11,033,601**	8,904,036
Property rental income	**125,867**	98,789
Hotel and other services income	**29,065**	26,362
Total revenue	**11,188,533**	9,029,187

5. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and assessment of segment performance. The Group has identified the following two reportable segments and other segment for its operating segments:

Property investment and development — This segment constructs residential and commercial properties in the PRC. Part of the business is carried out through associates and joint ventures.

Property leasing — This segment holds commercial units located in the PRC for leasing to generate rental income and gain from appreciation in the properties' values in the long term. Part of the business is carried out through a joint venture.

Other segment — This segment engages in hotel operations and generates service fee income in relation to hotel operation and other ancillary services.

5. SEGMENT INFORMATION *(continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and there were no inter-segment sales between different operating segments. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's associates and joint ventures. Reportable segment profit/loss excludes corporate income and expenses, finance costs and change in fair value of a derivative financial instrument from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of tax assets and corporate assets, including certain cash and bank balances and other assets which are not directly attributable to the business activities of the operating segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, amounts due to associates, joint ventures and non-controlling interests and other liabilities directly attributable to the business activities of the operating segments and exclude tax liabilities, corporate liabilities and liabilities such as borrowings, amounts due to related companies and guaranteed notes payable that are managed on a group basis.

5. SEGMENT INFORMATION *(continued)*

Information regarding the Group's reportable segments including the reportable segment revenue, reportable segment profit/(loss), segment assets, segment liabilities, the reconciliation to profit before income tax, total assets and total liabilities are as follows:

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
Six months ended 30 June 2018 (Unaudited)				
Revenue from contracts with customers	11,033,601	–	29,065	11,062,666
Recognized at a point in time	9,033,310	–	–	9,033,310
Recognized over time	2,000,291	–	29,065	2,029,356
Revenue from other sources: rental income	–	125,867	–	125,867
Reportable segment revenue	11,033,601	125,867	29,065	11,188,533
Reportable segment profit/(loss)	2,335,282	81,750	(10,726)	2,406,306
Corporate income				8,644
Change in fair value of a derivative financial instrument				3,407
Finance costs				(17,180)
Other corporate expenses				(27,619)
Profit before income tax				2,373,558
As at 30 June 2018 (Unaudited)				
Reportable segment assets	99,315,697	3,044,441	1,220,128	103,580,266
Tax assets				2,075,157
Corporate assets ^				5,631,528
Total consolidated assets				111,286,951
As at 30 June 2018 (Unaudited)				
Reportable segment liabilities	51,568,133	94,373	14,429	51,676,935
Tax liabilities				6,154,368
Borrowings				25,251,747
Amounts due to related companies				827,170
Guaranteed notes payable				7,124,700
Other corporate liabilities				140,664
Total consolidated liabilities				91,175,584

5. SEGMENT INFORMATION *(continued)*

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
Six months ended 30 June 2017 (Unaudited)				
Reportable segment revenue	8,904,036	98,789	26,362	9,029,187
Reportable segment profit/(loss)	1,347,915	69,943	(2,324)	1,415,534
Corporate income				436
Change in fair value of a derivative financial instrument				(492)
Finance costs				(15,500)
Other corporate expenses				(20,469)
Profit before income tax				1,379,509
As at 31 December 2017 (Audited)				
Reportable segment assets	88,483,940	3,182,074	1,191,963	92,857,977
Tax assets				1,728,572
Corporate assets ^				737,197
Total consolidated assets				95,323,746
As at 31 December 2017 (Audited)				
Reportable segment liabilities	42,310,717	95,875	15,354	42,421,946
Tax liabilities				6,062,672
Borrowings				24,211,838
Amounts due to related companies				4,942,323
Guaranteed notes payable				3,159,180
Other corporate liabilities				62,773
Total consolidated liabilities				80,860,732

^ Corporate assets as at 30 June 2018 mainly included cash and bank balances amounting to HK$5,345,021,000 which were managed on group basis. Corporate assets as at 31 December 2017 mainly included property, plant and equipment, prepaid lease rental on land, trade and other receivables, prepayments and deposits and cash and bank balances of HK$155,155,000, HK$123,022,000, HK$395,525,000 and HK$61,518,000 respectively which were managed on group basis.

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank deposits and others (note)	**154,851**	58,034
Sundry income	**10,631**	8,974
	165,482	67,008

Note: For the six months ended 30 June 2018, the amounts included interest income on amount due from a joint venture and amounts due from non-controlling interests of HK$7,814,000 (six months ended 30 June 2017: nil) and HK$41,433,000 (six months ended 30 June 2017: nil) respectively.

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interests on borrowings, guaranteed notes payable and others (note)	**565,391**	476,106
Interests on amounts due to related companies	**48,245**	111,316
Total interest expense on financial liabilities not at fair value through profit or loss	**613,636**	587,422
Less: Amount capitalized	**(596,456)**	(571,922)
	17,180	15,500

Note: For the six months ended 30 June 2018, no interests on amounts due to associates and non-controlling interests. For the six months ended 30 June 2017, the amounts included interests on amounts due to associates and non-controlling interests of HK$7,053,000 and HK$2,168,000 respectively.

8. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Profit before income tax is arrived at after charging:		
Amortization:		
Prepaid lease rental on land	**4,914**	4,395
Intangible assets #	**2,384**	2,194
Depreciation of property, plant and equipment	**21,099**	14,303
Total amortization and depreciation	**28,397**	20,892
Loss on disposal of property, plant and equipment	**–**	35
Staff costs	**313,057**	270,740
Net foreign exchange loss *	**6,101**	6,117

included in "Cost of sales and services provided" in the condensed consolidated income statement

* included in "Administrative expenses" in the condensed consolidated income statement

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax for the period		
Other regions of the PRC		
— Enterprise income tax ("EIT")	**591,634**	539,397
— Land appreciation tax ("LAT")	**821,868**	282,641
	1,413,502	822,038
Deferred tax	**(120,178)**	(149,118)
	1,293,324	672,920

For the six months ended 30 June 2018, no Hong Kong profits tax has been provided as the Group did not derive any estimated assessable profits in Hong Kong for the period (six months ended 30 June 2017: nil).

EIT arising from other regions of the PRC is calculated at 25% (six months ended 30 June 2017: 25%) on the estimated assessable profits.

PRC LAT is levied at progressive rates from 30% to 60% (six months ended 30 June 2017: 30% to 50%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

10. DIVIDENDS

The Board has declared that an interim dividend of HK$0.03 (six months ended 30 June 2017: HK$0.01) per share, amounting to HK$102,701,000 (six months ended 30 June 2017: HK$22,822,000), will be paid to the shareholders of the Company whose names appear in the Register of Members on 7 September 2018.

At the reporting date, a dividend of HK$0.03 per share, amounting to HK$102,701,000 was recognized as a liability (note 14) as the final dividend for the financial year ended 31 December 2017. At 30 June 2017, a dividend of HK$0.02 per share, amounting to HK$45,645,000 was recognized as a liability as the final dividend for the financial year ended 31 December 2016.

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to owners of the Company are based on the following data:

Earnings

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings used in calculating basic and diluted earnings per share	**1,014,212**	712,076

Weighted average number of ordinary shares

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	'000	'000
		(Restated)
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**3,219,675**	2,370,018

Weighted average number of ordinary shares used in calculating basic and diluted earnings per share has been adjusted for the Rights Issue (note 19) completed on 5 February 2018.

Diluted earnings per share were the same as the basic earnings per share for the six months ended 30 June 2018 and 2017 as there were no dilutive potential ordinary shares in existence during both periods.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred capital expenditure of approximately HK$51,275,000 (six months ended 30 June 2017: nil) to additions in hotel construction in progress, approximately HK$3,440,000 (six months ended 30 June 2017: HK$1,572,000) in furniture, fixtures and office equipment and approximately HK$52,000 (six months ended 30 June 2017: HK$64,000) in motor vehicles.

13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade receivables	**21,198**	38,191
Less: Allowance for impairment of trade receivables (note (b))	**–**	–
Trade receivables, net (note (a))	**21,198**	38,191
Other receivables	**3,164,262**	1,721,316
Prepayments and deposits	**11,019,638**	8,043,417
Less: Allowance for impairment of other receivables (note (c))	**(7,117)**	(7,178)
	14,197,981	9,795,746

13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

Notes:

(a) The ageing analysis of the Group's trade receivables net of impairment allowance, based on invoice date or when appropriate, date of transfer of property, is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
30 days or below	**4,278**	1,116
31–60 days	**3,113**	503
61–90 days	**544**	508
91–180 days	**902**	464
181–360 days	**994**	17
Over 360 days	**11,367**	35,583
	21,198	38,191

The credit terms in connection with sales of properties granted to the buyers are set out in the sale and purchase agreements and vary for different agreements. Rentals receivable from tenants and service income receivable from customers are generally due on presentation of invoices.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9 for all trade receivables, other receivables and contract assets. As at 30 June 2018, no material provision was made against the gross amount of trade receivables, other receivables and contract assets.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The ageing analysis of overdue trade receivables not considered impaired, based on past due date, at the end of the reporting period is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Over 360 days	**10,012**	35,423
	10,012	35,423

13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

Notes: *(continued)*

(b) The movement in the allowance for impairment of trade receivables during the period/year is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Carrying amount at the beginning of the period/year	**–**	3,344
Translation adjustment	**–**	120
Amounts written off as uncollectible	**–**	(3,464)
Carrying amount at the end of the period/year	**–**	–

(c) The movement in the allowance for impairment of other receivables during the period/year is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Carrying amount at the beginning of the period/year	**7,178**	14,606
Translation adjustment	**(61)**	754
Amounts written off as uncollectible	**–**	(8,182)
Carrying amount at the end of the period/year	**7,117**	7,178

14. TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade payables	**8,283,673**	8,436,569
Other payables and accruals	**1,038,155**	922,317
Dividend payables (note 10)	**102,701**	–
Deposits received	**305,738**	280,552
	9,730,267	9,639,438

The ageing analysis of the Group's trade payables based on invoice date is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
30 days or below	**3,835,095**	3,145,217
31–60 days	**337,491**	230,550
61–90 days	**66,033**	121,284
91–180 days	**588,310**	719,689
181–360 days	**1,318,758**	1,443,695
Over 360 days	**2,137,986**	2,776,134
	8,283,673	8,436,569

15. BORROWINGS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Current liabilities		
Bank borrowings	**2,802,866**	4,312,899
Other loans	**593,050**	598,150
	3,395,916	4,911,049
Non-current liabilities		
Bank borrowings	**20,669,731**	18,104,489
Other loans	**1,186,100**	1,196,300
	21,855,831	19,300,789
	25,251,747	24,211,838

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Analysis into:		
Bank borrowings		
Secured (note 20)	**265,101**	285,325
Unsecured	**23,207,496**	22,132,063
	23,472,597	22,417,388
Other loans		
Unsecured	**1,779,150**	1,794,450
	25,251,747	24,211,838

15. BORROWINGS *(continued)*

As at 30 June 2018, borrowings amounting to HK$169,027,000 (31 December 2017: HK$296,092,000) were guaranteed by certain subsidiaries of COLI.

The current and non-current bank borrowings were scheduled for repayment as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
On demand or within one year	**2,802,866**	4,312,899
More than one year, but not exceeding two years	**9,665,036**	2,306,309
More than two years, but not exceeding five years	**11,004,695**	15,798,180
	23,472,597	22,417,388

The current and non-current other loans were scheduled for repayment as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
On demand or within one year	**593,050**	598,150
More than one year, but not exceeding two years	**1,186,100**	1,196,300
	1,779,150	1,794,450

15. BORROWINGS (continued)

As at 30 June 2018, borrowings amounting to HK$23,035,779,000 (31 December 2017: HK$22,001,107,000) have been arranged at annual floating rates from 3.54% to 5.23% (31 December 2017: 2.75% to 5.70%) while the remaining balance of HK$2,215,968,000 (31 December 2017: HK$2,210,731,000) have been arranged at annual fixed rates of 3.42% to 3.80% (31 December 2017: 3.42% to 3.80%).

The carrying amounts of borrowings are denominated in the following currencies:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
HK$	**10,283,073**	11,683,072
Renminbi	**11,501,085**	8,914,237
United States Dollars ("US$")	**3,467,589**	3,614,529
	25,251,747	24,211,838

16. AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies as at 30 June 2018 amounted to HK$827,170,000 (31 December 2017: HK$4,942,323,000) in aggregate. The amounts are unsecured and denominated in RMB (31 December 2017: balances of HK$1,532,425,000 are denominated in HK$ and the remaining balances of HK$3,409,898,000 are denominated in RMB).

As at 30 June 2018, balances denominated in RMB amounting to HK$88,989,000 are interest-bearing at the People's Bank of China prevailing lending rate (31 December 2017: balances denominated in HK$ amounting to HK$1,532,325,000 are interest-bearing at Hong Kong Interbank Offered Rate and balances denominated in RMB amounting to HK$3,409,898,000 are interest-bearing at the People's Bank of China prevailing lending rate) whereas the remaining balances are interest-free.

As at 30 June 2018, balances amounting to HK$738,181,000 and HK$88,989,000 are repayable on demand and on 18 October 2020 respectively. As at 31 December 2017, balances amounting to HK$4,852,569,000 and HK$89,754,000 are repayable on or before 29 June 2018 and on 18 October 2020 respectively.

17. A DERIVATIVE FINANCIAL INSTRUMENT

Interest rate swap

At the end of the reporting period, the Group had an interest rate swap contract with notional amount of US$40,000,000 with maturity on 6 January 2020 to swap the interest rate of floating basis of 3-month London Interbank Offered Rate plus 1.515% to fixed rate at 3.2% per annum.

As at 30 June 2018, derivative financial instrument of HK$5,381,000 (31 December 2017: HK$1,974,000) was recognized in the condensed consolidated statement of financial position. During the six months ended 30 June 2018, fair value gain of a derivative financial instrument amounting to HK$3,407,000 (six months ended 30 June 2017: fair value loss of HK$492,000) was recognized in condensed consolidated income statement.

18. GUARANTEED NOTES PAYABLE

The movements of the carrying amount of the guaranteed notes payable are set out as below:

	HK$'000
Carrying amount as at 1 January 2017 (Audited)	3,148,508
Imputed interest expense (Audited)	169,548
Finance costs paid (Audited)	(158,876)
Carrying amount as at 31 December 2017 (Audited) and 1 January 2018 (Unaudited)	**3,159,180**
Net proceeds from issue of guaranteed notes payable (Unaudited) (note)	**3,904,715**
Imputed interest expense (Unaudited)	**99,426**
Finance costs paid (Unaudited)	**(79,438)**
Translation adjustment (Unaudited)	**40,817**
Carrying amount as at 30 June 2018 (Unaudited)	**7,124,700**
Analysed for reporting purpose as:	
Current liabilities	**3,204,138**
Non-current liabilities	**3,920,562**
	7,124,700

18. GUARANTEED NOTES PAYABLE (continued)

Note: On 1 June 2018, China Overseas Grand Oceans Finance IV (Cayman) Limited, a wholly-owned subsidiary of the Company, issued US$500,000,000 (equivalent to approximately HK$3,925,000,000) of 4.875% fixed rate guaranteed notes (the "Notes"), which mature on 1 June 2021 at their principal amount. The issue price for the Notes is 99.917%. The effective interest rate of the Notes is 5.063% per annum. The Notes bear interest from 1 June 2018 to 1 June 2021 and are payable semi-annually in arrears on 1 June and 1 December of each year, commencing on 1 December 2018.

The Notes are unconditionally and irrevocably guaranteed by the Company. In the event of the occurrence of certain conditions set out and defined in the subscription agreement which include, inter alia, the acquisition of not less than 38.32% voting rights of the Company by third party, each noteholder will have the right to require the issuer to redeem all, or some, of such notes at their principal amount together with accrued interest.

The net proceeds from the issuance of the Notes at 99.917% of the principal amount after the direct transaction costs of HK$17,027,000 is HK$3,904,715,000.

19. SHARE CAPITAL

	Number of ordinary shares '000	HK$'000
Issued and fully paid		
Balance at 1 January 2017 (Audited), 31 December 2017 (Audited) and 1 January 2018 (Unaudited)	2,282,240	2,144,018
Rights issue (Note)	**1,141,120**	**4,607,664**
Balance at 30 June 2018 (Unaudited)	**3,423,360**	**6,751,682**

Note:

On 7 November 2017, the Board announced that the Company proposed to raise gross proceeds of approximately HK$4,655.8 million by way of rights issue of approximately 1,141,120,000 rights shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK$4.08 per rights share (the "Rights Issue"). The Rights Issue was completed on 5 February 2018 and, with related share issue expenses amounting to HK$48,105,000, net proceeds of approximately HK$4,607,664,000 were raised by the Company. The number of issued ordinary shares of the Company was increased to approximately 3,423,360,000 shares and the share capital of the Company was increased from HK$2,144,018,000 to HK$6,751,682,000.

20. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amount of the assets pledged by the Group to secure borrowings and banking facilities granted to the Group are analyzed as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Pledge for borrowings and banking facilities of the Group		
Owners-occupied properties	**380,751**	394,684
Inventories of properties	**237,932**	765,193
	618,683	1,159,877

21. COMMITMENTS

At the end of each reporting period, the Group had significant commitments as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Contracted for but not provided for in the financial statements:		
— Acquisition of land	**3,793,459**	2,159,594
— Property development	**6,602,380**	5,891,102
Authorized but not contracted for:		
— Acquisition of land	**493,134**	–

22. CONTINGENT LIABILITIES

(a) Guarantees

At the end of each reporting period, the Group had issued the following significant guarantees:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Guarantees given to:		
Banks and government agencies for mortgage loans granted to certain purchasers of the Group's properties	**30,510,521**	31,417,570
Bank in respect of the banking facilities granted to a joint venture	**266,873**	269,168

In the opinion of the directors, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they are not accounted for in these financial statements.

(b) As disclosed in Note 45(b) to the 2017 financial statements, regarding the issue of construction work of certain land parcels owned by the Group's subsidiaries, as of the date of this report, the progress of the project development has not changed significantly since the end of last year. For the projects in Jiujiang, the application for approval to extend the commencement date of the construction work to the local authorities has been made currently but has not been approved yet; and for the project in Zibo, the Group is in negotiation with the local authorities that the delay in development is due to changes in the overall development plan in the district where the concerned land parcels are situated.

As of the date of this report, no action has been taken by the local authorities against the Group in respect of the delay of commencement of construction works on the concerned land parcels.

22. CONTINGENT LIABILITIES *(continued)*

(b) *(continued)*

The directors estimated that the maximum amount of penalty and liquidated damages as of 30 June 2018 would not be more than approximately HK$604 million (31 December 2017: HK$540 million) in aggregate according to the relevant regulations and land transfer agreements. The carrying amount of the aforementioned lands is approximately HK$3,330 million (31 December 2017: HK$3,360 million) in aggregate as of 30 June 2018.

Notwithstanding the above, the directors, having regard to their past experience in handling similar matter and the latest local development, considered that the risk of confiscation of the concerned land parcels as well as penalty and liquidated damages is low. Having regard to the nature and latest development, the directors are of the opinion that no non-conformity instance would have material impact on the result and financial position of the Group.

23. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(a) During the six months ended 30 June 2018, the entire amounts of dividends from associates amounting to HK$124,437,000 were debited to the amounts due to associates.

(b) During the six months ended 30 June 2018, the entire amount of return of capital to non-controlling interests amounting to HK$73,685,000 was credited to the amounts due from non-controlling interests.

24. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these condensed financial statements, the Group had the following significant transactions with related parties during the period:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Nature of transactions		
COLI and its subsidiaries		
Royalty expenses	**111,592**	83,917
Property management fees expenses	**–**	6,526
Rental income	**9,020**	7,546
Underwriting fee (note (i))	**43,316**	–
COPH (note (ii)) and its subsidiaries		
Property management fee expenses	**18,659**	16,058
CSC (note (iii)) and its subsidiaries		
Construction supervision expenses	**14,823**	23,531
PRC government departments/agencies		
Land use rights acquisitions	**8,641,572**	5,146,904
Key management (including directors)		
Remuneration	**5,376**	3,408

Notes:

(i) In connection with the Rights Issue of the Company as further detailed in note 19, the Company entered into an underwriting agreement with COLI on 7 November 2017, pursuant to which COLI agreed to underwrite the rights shares of the Company and COLI is entitled to underwriting commission which is calculated at 1.5% of the aggregate subscription price in respect of the underwritten shares.

(ii) China Overseas Property Holdings Limited ("COPH") is a fellow subsidiary of COLI.

(iii) China Overseas Holdings Limited is the controlling shareholder of both the Company and China State Construction International Holdings Limited ("CSC").

25. FAIR VALUE MEASUREMENT

(a) Financial instruments

The fair value of a derivative financial instrument as at 30 June 2018 is a level 2 recurring fair value measurement and determined using the same approach as the last year end.

During the six months ended 30 June 2018, there were no transfers among level 1, level 2 and level 3 in the fair value hierarchy.

Financial instruments not measured at fair value include trade and other receivables, balances with associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payables, other payables and accruals, borrowings and guaranteed notes payable.

Due to their short-term nature, the carrying values of trade and other receivables, balances with associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payable, other payables and accruals, current borrowings and guaranteed notes payable approximate their fair values.

For disclosure purpose, the fair value of non-current balances with a joint venture and a related company, borrowings and guaranteed notes payable are not materially different from their carrying values. Those fair values have been determined by using discounted cash flow models and are classified as level 3 in the fair value hierarchy. Significant inputs include the discount rates used to reflect the credit risks of the Group and the counterparty.

(b) Non-financial assets

The fair value of the investment properties as at 30 June 2018 is a level 3 recurring fair value measurement and determined using the same approach as the last year end. During the six months ended 30 June 2018, there were no transfers among level 1, level 2 and level 3 in the fair value hierarchy.

Others

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

After reviewing the working capital requirements for the Group's future expansion of its business, the board (the "Board") of directors (the "Directors") of the Company declared an interim dividend of HK3 cents per share (2017: HK1 cent per share) for the six months ended 30 June 2018. The interim dividend will be payable in cash.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	5 September 2018
Closure of Register of Members	7 September 2018
Record date	7 September 2018
Despatch of dividend warrants	11 October 2018

In order to qualify for the interim dividend, all transfers, accompanied by the relevant certificates, must be lodged with the Company's share registrar, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6 September 2018.

SHARE CAPITAL

The Company's total number of shares in issue as at 30 June 2018 was 3,423,359,841 ordinary shares.

SHARES ISSUED

On 7 November 2017, the Board announced that the Company proposed to raise gross proceeds of approximately HK$4,655.8 million by way of rights issue of 1,141,119,947 rights shares (the "Rights Shares") on the basis of one Rights Share for every two ordinary shares held on 11 January 2018 at the subscription price of HK$4.08 per Rights Share (the "Rights Issue"). The Directors considered that the Rights Issue would provide a good opportunity for the Company to raise funds to strengthen its capital base and improve its financial position, so that the Company would be in a better position to capture more business and investment opportunities. The closing price as quoted on the Stock Exchange on 7 November 2017, being the date on which the terms of the Rights Issue were fixed, was HK$4.43 per share. The net subscription price per Rights Shares is approximately HK$4.04.

SHARES ISSUED *(continued)*

With approval of the shareholders at the extraordinary general meeting of the Company held on 29 December 2017, the Company issued the Rights Shares on 5 February 2018. The net proceeds from the Rights Issue are approximately HK$4,607.7 million, which are intended to be used in the following manner:

(a) approximately HK$3,249.4 million (representing 70.5% of the net proceeds from the Rights Issue) will be applied for repayments of existing indebtedness and outstanding liabilities;

(b) approximately HK$921.8 million (representing 20.0% of the net proceeds from the Rights Issue) will be applied for business development; and

(c) the remaining proceeds (representing 9.5% of the net proceeds from the Rights Issue) will be applied for general working capital requirements of the Group.

As at 30 June 2018, approximately HK$2.75 billion and HK$0.21 billion of the proceeds have been applied for repayments of bank loans and general working capital respectively. Currently, the Group sticks to its plan on the use of proceeds as disclosed in the prospectus issued in January 2018 and will report the application of the remaining balance in the annual report of 2018.

For details of the Rights Issue, please refer to the prospectus and announcement of the Company dated 12 January 2018 and 2 February 2018 respectively.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct for dealings in securities of the Company by the Directors. Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2018, the Directors and chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long Positions in Shares of the Company

Name of Directors	Capacity	Nature of interests	Number of ordinary shares held	Aggregate long position	Percentage of aggregate long position in shares to the total number of shares of the Company in issue *(Note 1)*
Mr. Zhang Guiqing	Beneficial owner	Personal	311,250	311,250	0.01%
Mr. Yung Kwok Kee, Billy	Beneficial owner	Personal	17,849,999	463,045,980	13.53%
	Beneficiary of a trust *(Note 2)*	Other	382,617,689		
	Interest of controlled corporation *(Note 3)*	Interest of controlled corporation	62,578,292		
Dr. Chung Shui Ming, Timpson	Beneficial owner	Personal	544,875	544,875	0.02%
Mr. Yang Lin	Beneficial owner	Personal	2,550,000	2,896,125	0.08%
	Interest of spouse	Family	346,125		

Notes:

1. *The percentage is based on the total number of shares of the Company in issue as at 30 June 2018 (i.e. 3,423,359,841 shares).*

2. *These shares are held by a trust for the benefit of Mr. Yung Kwok Kee, Billy and his family members.*

3. *These shares are held by Extra-Fund Investment Limited, a wholly-owned subsidiary of Shell Electric Holdings Limited, which in turn is owned as to 80.45% by Red Dynasty Investments Limited, a company wholly-owned by Mr. Yung Kwok Kee, Billy.*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(continued)*

Long Positions in Shares of the Company *(continued)*

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Directors or chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the Directors and chief executives of the Company (including their spouses and children under the age of 18) had, as at 30 June 2018, any interest in, or had been granted any right to subscribe for the shares, options and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2018, the following persons (other than the Directors or chief executives of the Company) were interested in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholders	Capacity	Nature of interests	Number of ordinary shares held	Aggregate long position	Percentage of aggregate long position in shares to the total number of shares of the Company in issue *(Note 1)*
China State Construction Engineering Corporation ("CSCEC")	Interest of controlled corporation *(Note 2)*	Interest in controlled corporation	1,311,965,566	1,311,965,566	38.32%
Diamond Key Enterprises Inc. ("Diamond Key")	Beneficial owner *(Note 3)*	Beneficial	200,910,903	200,910,903	5.87%
On Fat Profits Corporation ("On Fat")	Beneficial owner *(Note 3)*	Beneficial	181,706,786	181,706,786	5.31%
UBS TC (Jersey) Ltd. ("UBS TC")	Trustees of trusts *(Note 3)*	Other	382,617,689	382,617,689	11.18%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES *(continued)*

Notes:

1. *The percentage is based on the total number of shares of the Company in issue as at 30 June 2018 (i.e. 3,423,359,841 shares).*

2. *CSCEC is interested in 1,311,965,566 shares which comprises of 1,262,211,316 shares held by Star Amuse Limited ("Star Amuse") and 49,754,250 shares held by Chung Hoi Finance Limited ("Chung Hoi"). Star Amuse is a wholly-owned subsidiary of Big Crown Limited ("Big Crown"). Big Crown and Chung Hoi are wholly-owned subsidiaries of China Overseas Land & Investment Limited ("COLI") which in turn is a non-wholly owned subsidiary of China Overseas Holdings Limited ("COHL"). COHL is a subsidiary of China State Construction & Engineering Corporation Limited ("CSCECL") which in turn is a non-wholly owned subsidiary of CSCEC.*

3. *382,617,689 shares held by UBS TC (including 200,910,903 shares and 181,706,786 shares held by Diamond Key and On Fat respectively) are disclosed in the section headed "Directors' and Chief Executives' Interests in Securities" above as being held under a trust with Mr. Yung Kwok Kee, Billy and his family members as the beneficiaries. None of the Directors are directors or employees of On Fat and Diamond Key.*

Save as disclosed above, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30 June 2018.

CORPORATE GOVERNANCE

The Company always strives to raise the standard of its corporate governance and regards corporate governance as part of value creation. This reflects the commitment of the Board and senior management on abiding by the standards of corporate governance, as well as our commitment to maintain transparency and accountability to maximize the value of our shareholders as a whole.

Except for the deviation from code A.4.1, the Company has applied the corporate governance principles and complied with all the code provisions (where applicable, most of the recommended best practices) set out in Appendix 14 to the Listing Rules ("CG Codes") for the six months ended 30 June 2018.

CG Code A.4.1 stipulates that non-executive directors should be appointed for a specific term. Two non-executive directors of the Company are not appointed for a specific term, however, they are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 23 January 2014, the Company entered into a trust deed in relation to the issuance of US$400 million guaranteed notes due 2019 (the "Notes"). Under the trust deed, the holders of the Notes shall have the right, at their option, to require the Company to redeem all, or some only, of their Notes at their principal amount together with accrued interest following the occurrence of several events which include that COLI ceases to hold at least 30% of the voting rights of the number of shares of the Company in issue.

Furthermore, the Company entered into the facility agreements/letter in the following terms and conditions:

(1) Date: 10 March 2017

Amount: Loan facility up to HK$600 million, which can be increased to HK$1 billion in accordance with the facility agreement

Term: 60 months commencing from the date of the facility agreement

(2) Date: 15 March 2017

Amount: Loan facility up to HK$1.3 billion

Term: 36 months commencing from the date of the facility agreement

(3) Date: 14 December 2017

Amount: Loan facility up to HK$1 billion

Term: 60 months commencing from the date of the facility letter

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

(continued)

The above facility agreements/letter stipulated that, if COLI, the controlling shareholder of the Company, ceases to be the single largest shareholder of the Company; or ceases to have management control over the Company, the above facilities shall be cancelled and all outstanding amounts (including the principal and interest) shall become immediately due and payable.

As at the date of this interim report, COLI owns approximately 38.32% of the total number of shares of the Company in issue.

GUARANTEED NOTES

On 24 May 2018, the Company and the issuer (a wholly owned subsidiary of the Company) entered into a subscription agreement with the joint bookrunners and joint lead managers in relation to the issuance of US$500,000,000 4.875 per cent. guaranteed notes due 2021 (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by the Company irrevocably and unconditionally. Details of which are set out in note 18 to the condensed financial statements.

The net proceeds from the issuance of the Guaranteed Notes, after deducting the fees and other expenses in connection with the issuance of the Guaranteed Notes, amounted to approximately US$497.4 million, which are used to repay and/or refinance the existing indebtedness of the Group, to finance new and existing projects and for general corporate purposes.

CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2017 annual report of the Company, which are required to be disclosed pursuant to Rules 13.51B(1) of the Listing Rules, are set out below:

Name of Directors	Details of changes
Mr. Yan Jianguo	— Ceased to receive any director's emolument with effect from 1 January 2018.
Mr. Zhang Guiqing	— The fixed annual emolument was adjusted to approximately HK$2,163,000, with effect from 1 January 2018.
Mr. Wang Man Kwan, Paul	— The fixed annual emolument was adjusted to approximately HK$2,996,000, with effect from 1 February 2018.
Mr. Yang Lin	— The fixed annual emolument was adjusted to approximately HK$1,701,000, with effect from 1 January 2018.
Dr. Chung Shui Ming, Timpson	— Appointed an independent non-executive director of China Railway Group Limited.
	— Appointed an independent non-executive director of Orient Overseas (International) Limited.
	— Ceased to be an independent director of CSCECL.
Mr. Lam Kin Fung, Jeffrey	— Appointed an independent non-executive director of Analogue Holdings Limited.
	— Appointed an independent non-executive director of Wing Tai Properties Limited.
	— Ceased to be a member of the Fight Crime Committee.

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2018.

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the Company's unaudited interim results for the six months ended 30 June 2018, and discussed with the Company's management regarding auditing, internal control and other important matters.

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