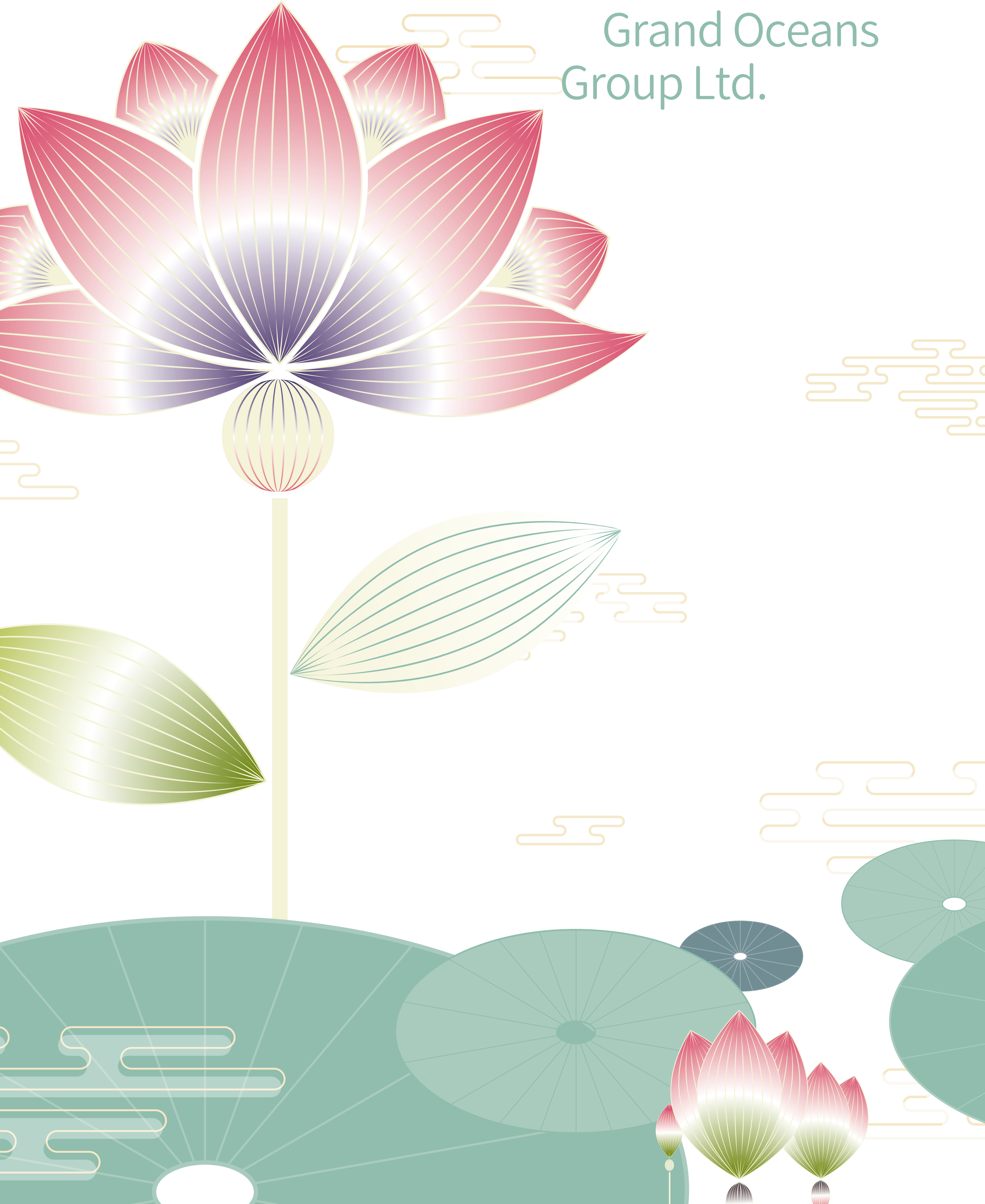
中國海外宏洋集團有限公司
CHINA OVERSEAS GRAND OCEANS GROUP LTD.

Stock Code : 00081

Annual Report 2018

Together We Advance

China Overseas Grand Oceans Group Ltd.



CONTENTS

2 Corporate and Shareholders' Information
3 Board of Directors and Committees
4 Financial Highlights
6 Chairman's Statement
14 Management Discussion and Analysis
30 Corporate Governance Report
39 Directors and Organization
43 Directors' Report
61 Independent Auditor's Report
68 Consolidated Income Statement
69 Consolidated Statement of Comprehensive Income
70 Consolidated Statement of Financial Position
72 Consolidated Statement of Changes in Equity
73 Consolidated Statement of Cash Flows
75 Notes to the Financial Statements
188 Five Year Financial Summary
189 Particulars of Major Properties & Property Interests
199 Glossary

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
Website : www.cogogl.com.hk

COMPANY SECRETARY

Edmond Chong

SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185
E-mail : is-enquiries@hk.tricorglobal.com

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 CITIC BANK Corporation Limited
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

DIVIDEND POLICY

The Company has adopted a dividend policy on 20 March 2019. According to the dividend policy, the total amount of dividends to be distributed by the Company to the shareholders of the Company for each financial year shall be approximately 20-30% of the Group's consolidated net profit attributable to shareholders, subject to the criteria set out in the dividend policy.

For details of the dividend policy, please refer to the announcement of the Company dated 20 March 2019.

SHAREHOLDERS' INFORMATION

SHARE LISTING

The Company's shares are listed on the Stock Exchange.

ORDINARY SHARES (AS AT 31 DECEMBER 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

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

FINANCIAL CALENDAR

2018 annual results announcement	20 March 2019
Book closure period for annual general meeting	6 June 2019 to 12 June 2019 (both days inclusive)
Annual general meeting	12 June 2019
Book closure period for final dividend	18 June 2019
Despatch date of final dividend warrant	4 July 2019
Financial year end	31 December 2019

Board of Directors and Committees

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Yan Jianguo

EXECUTIVE DIRECTORS

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

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*

Financial Highlights

For the year ended 31 December	2018	2017	Change
Contracted property sales[#] *(HK$ Million)*	**50,540.2**	37,068.3	36.3%
Key Consolidated Profit and Loss Items *(HK$ Million)*			
Revenue	**25,571.3**	20,277.8	26.1%
Gross profit	**7,437.7**	4,068.5	82.8%
Gross margin[1]	**29.1%**	20.1%	9.0%^
Profit attributable to owners of the Company	**2,427.3**	1,271.4	90.9%
Net margin[2]	**9.5%**	6.3%	3.2%^
As at 31 December	**2018**	2017	Change
Key Consolidated Statement of Financial Position Items *(HK$ Million)*			
Inventories of properties	**67,682.7**	54,414.4	24.4%
Contract liabilities/Sales deposits received	**43,282.5**	30,820.8	40.4%
Cash reserves[3]	**33,264.2**	23,702.3	40.3%
Total borrowings[4]	**32,667.0**	27,371.0	19.3%
(Net cash)/Net debts[5]	**(597.2)**	3,668.7	N/A
Equity attributable to owners of the Company	**19,448.2**	13,677.1	42.2%
Net gearing[6]	**N/A**	26.8%	N/A
Net asset per share[7] *(HK$)*	**5.7**	6.0	–5.0%
Land Bank *(Thousand sq.m.)*			
Development land reserves[#]	**21,340.0**	19,025.8	12.2%
Financial Year	**2018**	2017	Change
Return to Shareholders			
Return on equity[8]	**14.7%**	10.6%	4.1%^
Earnings per share *(HK cents)*	**73.1**	53.6*	36.4%
Dividends per share *(HK cents)*	**14.2**	4.0	255%

FORMULA OF FINANCIAL INFORMATION

(1) Gross margin

$$\frac{\text{Gross profit}}{\text{Revenue}}$$

(2) Net margin

$$\frac{\text{Profit attributable to owners of the Company}}{\text{Revenue}}$$

(3) Cash reserves: Cash and bank balances + Restricted cash and deposits

(4) Total borrowings: Borrowings + Guaranteed notes payable

(5) (Net cash)/Net debts: Total borrowings – Cash reserves

(6) Net gearing

$$\frac{\text{Net debts}}{\text{Equity attributable to owners of the Company}}$$

(7) Net asset per share

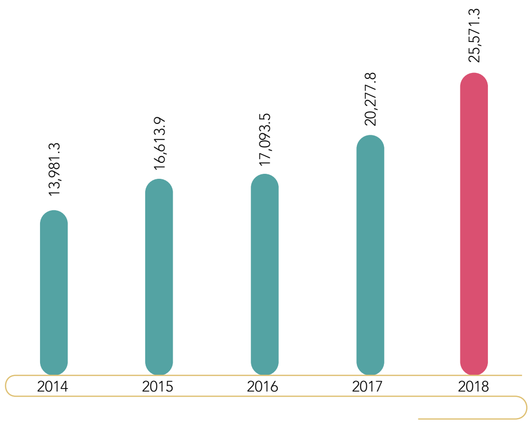
$$\frac{\text{Equity attributable to owners of the Company}}{\text{Number of Shares outstanding}}$$

(8) Return on equity

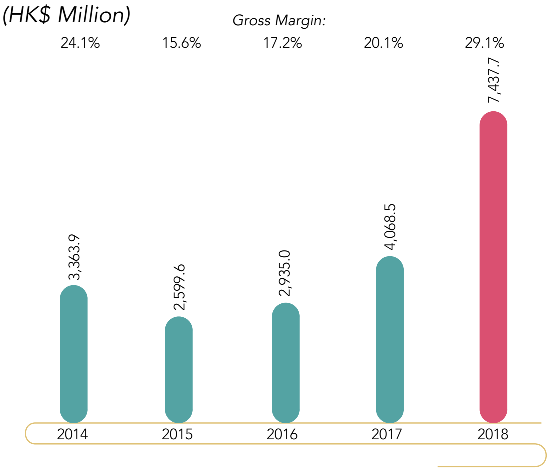
$$\frac{\text{Profit attributable to owners of the Company}}{\text{Average capital and reserves attributable to owners of the Company}}$$

Note: ^ Change in percentage points
* Restated
\# Included associates and joint ventures

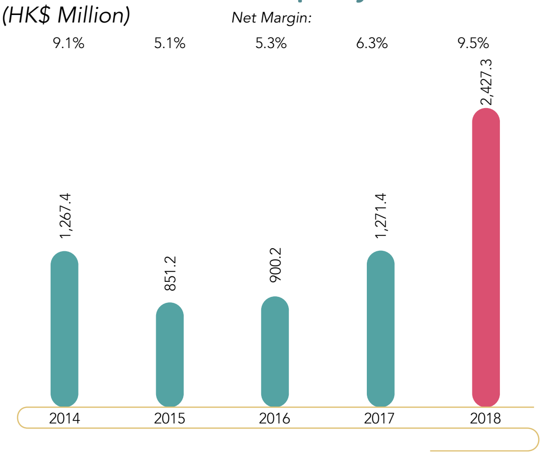
Revenue
(HK$ Million)



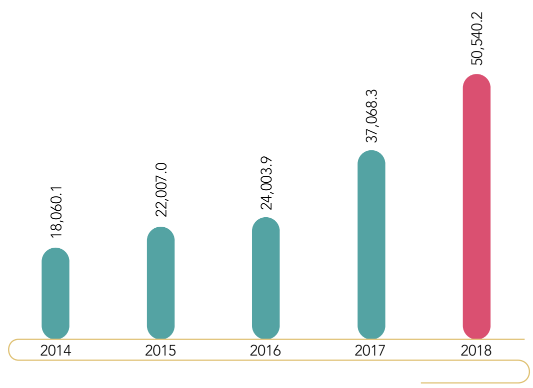
Gross Profit
(HK$ Million)



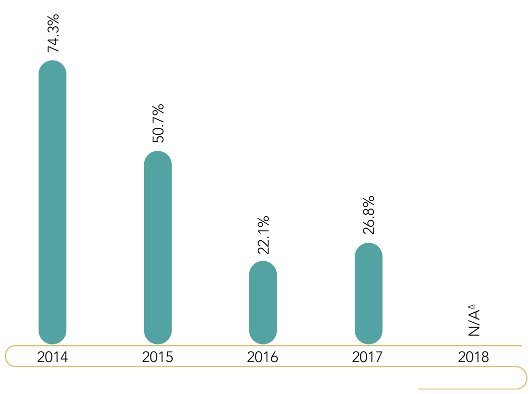
Profit Attributable to Owners of the Company
(HK$ Million)



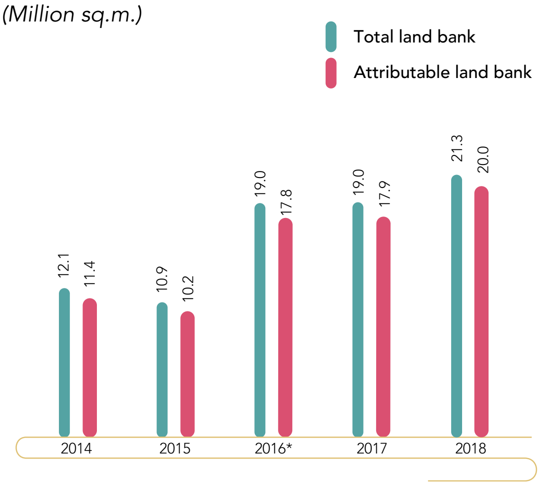
Contracted Property Sales#
(HK$ Million)



Net Gearing



Land Bank#
(Million sq.m.)



* Restated
\# Included associates and joint ventures
Δ Net cash

Chairman's Statement

Jilin – International Community

Shantou – Huating

Chairman's Statement

For the year ended 31 December 2018, the Group's revenue increased by 26.1% year-on-year to HK$25.57 billion while profit attributable to owners of the Company also surged by 90.9% year-on-year to HK$2.43 billion. Basic earnings per share reached HK73.1 cents.

The Group is confident that the development of China's real estate market will remain robust in the medium to long term and is committed to achieve sustainable, stable and healthy growth with high quality. The Group continues to focus on the emerging cities with the best investment value and growth potentials.

Yan Jianguo
Chairman and Non-Executive Director

INTRODUCTION

I am pleased to present the annual results of the Group for the year ended 31 December 2018.

For the year ended 31 December 2018, the Group's revenue increased by 26.1% to HK$25,571.3 million comparing with last year, while profit attributable to owners of the Company was HK$2,427.3 million, 90.9% higher than last year. Basic earnings per share were HK73.1 cents.

The business environment in 2018 was extremely challenging and filled with uncertainties, amid the pressure from the Sino-U.S. trade frictions, rebalancing and deleveraging of domestic economy in China and monetary tightening. Affected by economic factors and global financial markets, the exchange rate of Renminbi (RMB) was also volatile notably during the year. Nevertheless, with the deepening of the supply-side structural reforms and introduction of proper policies and measures by the government, the economy of China stayed resilience in the year and the GDP of China still managed a growth of 6.6% year-on-year in 2018.

In view of the complicated operating environment in the year, the Group remained committed to its prudence approach and was dedicated to maintain ample liquidity. 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 and in June 2018, the Group successfully completed the issuance of a 3-year US$500 million guaranteed notes. The proceeds from the rights issue were mainly applied for repayment of bank loans while the money from the guaranteed notes issued was largely used for refinancing the US$400 million guaranteed notes due in January 2019. The Group firmly secured its refinancing funding needs in an unclear market from the exercises. Moreover, the amount raised from rights issue significantly enhanced the capital base of the Group and improved its financial muscles to propel its business plan and counter the challenges in a dynamic environment.

In order to improve the operational efficiency, the Group continued to invest in information management systems and optimized the operational structure in the year. The effective management system served as a solid foundation for the sustainable growth of the business. The Group also continued its efforts in perfecting the design of its property products, broadening its product offerings, improving the quality of its projects and upgrading its customer services so as to bring additional values to the customers and maintain its leading market position.

The Group was determined in accelerating inventory turnover and continued its flexible and innovative marketing strategies and sales tactics to stimulate property sales. The sales achieved in 2018 was very encouraging despite the complex market condition. With the launch of more promotional campaigns, the Group together with its associates and joint ventures attained record high contracted property sales of HK$50,540.2 million for the year (2017: HK$37,068.3 million), representing an increase of 36.3% against last year, which corresponded to an aggregated contracted area of 3,998,500 square meters (sq.m.) (2017: 3,411,900 sq.m.), representing an increase of 17.2% year-on-year. Of the contracted sales, an amount of HK$974.5 million (2017: HK$4,633.7 million) for an aggregated contracted area of 45,600 sq.m. (2017: 250,300 sq.m.) was contributed by associates and joint ventures. Besides, the balance of preliminary sales at the year-end pending the completion of formal sales and purchase agreements in the pipeline was HK$1,716.0 million for an aggregated contracted area of 141,200 sq.m..

While expediting the property sales, the Group has not slowed down its pace in business expansion, but in a cautious way, and actively monitored land acquisition opportunities in the market so as to enlarge its land bank with good returns for persisted growth. During the year, the Group extended its business to three new cities with high growth potential, which were Liuzhou (Guangxi province), Baotou (Inner-Mongolia) and Jining (Shandong province). The Group bagged a total of twenty five land parcels in fourteen cities in the year, in the districts of Liuzhou, Yancheng, Baotou, Lanzhou, Nantong, Hefei, Ganzhou, Hohhot, Jining, Huizhou, Jilin, Yinchuan, Nanning and Yangzhou with a total gross floor area of 5,022,700 sq.m. (attributable to the Group: 4,660,500 sq.m.). As at 31 December 2018, the gross floor area of total land bank of the Group and its joint ventures in China reached 21,340,000 sq.m., of which, 252,900 sq.m. was held by joint ventures. The gross floor area of land bank attributable to the Group (including the interests in joint ventures) was 19,976,500 sq.m.. The Group held a land bank distributed in 22 cities as at 31 December 2018.

DIVIDEND

The interim dividend paid in October 2018 was HK3 cents per share (2017: HK1 cent per share). After reviewing the result performance for the year and working capital requirements for the Group's future expansion of its business, the Board of the Company recommended the payment of a final dividend of HK11.2 cents per share (2017: HK3 cents per share) for the year ended 31 December 2018. Total dividends for the financial year will amount to HK14.2 cents per share (2017: HK4 cents per share) or HK$486.1 million, which represents a dividend payout ratio of 20%, comparing to the profit attributable to owners of the Company.

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting 2019.

PROSPECTS

THE ECONOMY

The world is facing its biggest challenge in a hundred years with significantly raised levels of uncertainty in international political and economic structures. In 2018, frequent rate hikes for the US dollar, together with the US-initiated trade war, intensified uncertainty about global economic growth. The Chinese economy steadily progressed and evolved, but not without concerns.

Ganzhou – One Riverside Park

Shantou – La Cite

Having braved the challenges of numerous economic and real estate cycles, the Group strongly believes that China's economy is still in the period of important strategic opportunity. The Group has confidence in the development of China's economy and its own development strategy.

REAL ESTATE DEVELOPMENT

The property market was still under regulations in 2018. With the ratcheting up of regulations and controls, transactions slowed in the mainland real estate market.

The Group is of the view that the mainland property market moves from a period of rapid growth to one of steady development. The Group is confident that the development of China's real estate market will remain robust in the medium to long term, and has a clear-eyed understanding of likely short-term adjustments. Aiming to stabilize land prices, housing prices and market expectations, the state policy will strive to balance the government's regulatory grip and steady growth, paying more attention to sustainability while market smoothing operations. It will also reinforce city-specific growth policies, accelerate differentiation in market structure, and command higher expectations of enterprises' strategies, professional capabilities, financial strength, and human resource quality.

With steady development of the economy of China, the Group also expects the property market in third-tier cities will maintain stable. As requested in the Central Economic Work Conference 2018, "Development of urbanization shall be facilitated by making efforts to fulfil the target for granting urban residency to 100 million rural migrant workers by 2020", and the urbanization is still in progress. The progress of development for certain major third-tier cities will be better as driven by higher urbanization rate in these cities. In addition, the possibility of implementation of new property control policy across the country by the government is relatively low. In January this year, the government stated to "properly apply a long-term mechanism for the stable and healthy development of the real estate sector", reaching a consensus that specific policy in relation to property industry should be formulated for each city. Under the guidance of maintaining stability, it is believed that the property control policy in third-tier cities may be progressively relaxed. As skeptical atmosphere has been improving, the property market will be able to grow in a stable manner.

With profound influence of the brand, customer recognition and increasing satisfaction, the Group will continue to be a pioneer in the cities where it operates and look ahead with full confidence.

GROUP STRATEGY

The Group is committed to achieve sustainable, stable and healthy growth with high quality in the property market in China.

Fully embraced the government's urbanization and long-term housing policy and on-going infrastructure investment, the Group continues to focus on the emerging cities with the best investment value and growth potentials. Product position remains principally at residential properties in the range of middle to high end.

For attaining long-term growth, the Group continues, in an orderly manner, to seek for business opportunities with investment value and good returns at appropriate and sustainable capital and debt structure. The proceeds from the rights issue and the issuance of guaranteed notes laid down a strong foundation of the strategic framework of the Group and strengthened its capability to expand the operating scale to capture more business and investment opportunities.

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. Stick firmly to its prudent and cautious investment strategies, the Group closely monitors land acquisition opportunities in different regions for continuous expansion. The Group not only replenishes land in its well-performed cities, but also will extend its footprints, with thoughtful analysis. The Group will actively explore to penetrate into other new cities, mainly regional economic centres closed to metropolitan areas and with high growth potential, and districts where synergies can be achieved with the cities being operated.

On top of open market land auctions, the Group considers to diversify its land acquisition channels 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 to the principle of customer-oriented, the Group dedicates to providing customers with good products and services. Measures will be taken to improve the quality of products and services continuously, and enhance customer satisfaction and loyalty in order to accumulate loyal customers for sustainable development of the Group in the future.

The Group will continue to increase its efforts in product research and development and maintain its product development strategies in the areas of mainstream with high-quality, green, healthy, wisdom and technology. Balancing product standardization and innovation, differentiated products will be introduced continuously by the Group to tap into the needs of different customer segments so as to lead the market and safeguard its profitability.

Facing the intensifying competition and rapidly-changing market environment, extra efforts will be made to optimize the project development cycle, develop new marketing methodologies and strategies, and speed up sales programs. The Group targets to boost the sell-through rate of the inventory continuously.

Hefei – Coli City

Yancheng – The Glorious

As headwind to the industry is strong, the Group has to keep on equipping itself with the updated management systems. Built on the standardized operation systems, the Group keeps on streamlining its operating processes, reinforcing its internal controls, tightening its cost controls and strengthening its risk management system to improve efficiency and effectiveness. In response to the fast-changing business and regulatory requirements, continual investments have been made to enhance management systems and excel project management process. The Group strives to extend its competitive edge and earning capability.

Being a responsible corporation, the Group maintains professional and prudent financial management of the financial resources and will continue to enhance its financial management capability. Since liquidity is critical to a capital intensive business, cashflow will be monitored closely while debt structure and profile will be reviewed regularly and optimized continuously. The Group will 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.

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 profession, 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 for the year, and our shareholders, customers and business partners for their continued confidence and support.

China Overseas Grand Oceans Group Limited
Yan Jianguo
Chairman and Non-Executive Director

Management Discussion and Analysis

Weifang – Da Guan Tian Xia

Nanning – International Community

Management Discussion and Analysis

BUSINESS REVIEW

REVENUE AND OPERATING RESULTS

Over the past year, the government continuously adopted city-specific policies and the property market of certain cities, where the Group's property development projects located, has been relatively stable and optimistic. The Group together with its associates and joint ventures completed contracted property sales of HK$50,540.2 million for the year (2017: HK$37,068.3 million), representing an increase of 36.3% against last year. Of the contracted sales, an amount of HK$974.5 million (2017: HK$4,633.7 million) was contributed by associates and joint ventures. For the year ended 31 December 2018, the Group recorded revenue of HK$25,571.3 million, 26.1% increase comparing with last year. Gross profit for the year was HK$7,437.7 million, HK$3,369.2 million higher than last year. Gross margin for the year further improved and surged notably by 9.0% against last year to 29.1%, as driven by the increase on the average selling price of the properties.

The Group continued the extended promotion and marketing activities in order to boost the property sales. Although the distribution and selling expenses increased by HK$165.4 million against the last year to HK$841.1 million, the ratio of distribution and selling expenses to the Group's contracted property sales still maintained at the low level of 1.7%, with the contracted property sales for the year attained record high. On the other hand, as the operating scale has been expanding gradually, administrative expenses for the year increased by HK$112.1 million year-on-year to HK$722.2 million. The ratio of the administrative expenses to revenue, however, improved and decreased by 0.2% compared to last year to 2.8%. The Group still maintained stringent controls over the expenses.

Huizhou – Harbour City

Huizhou – Triumph Town

Nantong – Central Mansion

BUSINESS REVIEW (CONTINUED)

REVENUE AND OPERATING RESULTS (Continued)

The other operating expenses increased by HK$152.6 million in the year to HK$160.3 million, which was mainly due to the recognition of a net exchange loss of approximately HK$140.9 million arising from the repatriation of capital of certain projects invested in RMB in previous years.

In respect of the investment properties, no fair value adjustment was recognized (2017: gain of HK$191.8 million) for the year. Sales of the China Overseas Building located in Jilin, in form of sub-units, continued and the units were handover to buyers gradually during the year. As such, the Group recognized a profit before taxation of HK$2.2 million (2017: HK$0.5 million) from the disposal. Approximate 90% of the total gross floor area of the building was handover up to the year ended 31 December 2018.

As the US Federal Reserve raised interest rates four times in 2018, 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$2.5 million (2017: HK$2.0 million) in consolidated income statement for the year.

Driven by rise in gross profit, operating profit for the year amounted to HK$6,156.5 million, representing an increase of 94.4% against last year.

The share of profit of joint ventures for the year increased to HK$266.1 million (2017: share of loss: HK$9.9 million), which was mainly driven by the recognition of profit from properties sales of two property development projects located in Shantou and Hefei respectively.

BUSINESS REVIEW (CONTINUED)

REVENUE AND OPERATING RESULTS (Continued)

Share of profit of associates amounted to HK$12.2 million (2017: HK$57.2 million) for the year, which was mainly contributed by an associated company located in Shantou.

In the past year, the financial market was volatile and the capital liquidity was tight. In order to minimize the refinancing risk and repay the US$400 million guaranteed notes due in January 2019 at a reasonable cost, the Group successfully completed the issuance of a 3-year US$500 million guaranteed notes at 4.875% coupon rate in June 2018. Therefore, total interest expense increased from HK$1,234.9 million of last year to HK$1,377.5 million this year. Finance costs also increased from HK$32.5 million of last year to HK$92.3 million this year, after capitalization of HK$1,285.2 million to the on-going development projects.

Income tax expense comprised enterprise income tax and land appreciation tax. Driven by the surge in profit, income tax expense increased by HK$1,920.6 million to HK$3,841.0 million in the year. The effective tax rate of the year was at the similar level as last year.

In total, for the year ended 31 December 2018, profit attributable to owners of the Company increased by 90.9% against last year to HK$2,427.3 million (2017: HK$1,271.4 million). Basic earnings per share were HK73.1 cents (2017 restated: HK53.6 cents).

LAND BANK

The Group's management believes that a sizable and quality land bank is one of the most important assets to a property developer. For persisted growth, the Group extended its business to three new cities with high growth potential, which were Liuzhou (Guangxi province), Baotou (Inner-Mongolia) and Jining (Shandong province). The Group bagged a total of twenty five land parcels in fourteen cities in the year, in the districts of Liuzhou, Yancheng, Baotou, Lanzhou, Nantong, Hefei, Ganzhou, Hohhot, Jining, Huizhou, Jilin, Yinchuan, Nanning and Yangzhou with a total gross floor area of 5,022,700 sq.m. (attributable to the Group: 4,660,500 sq.m.) for consideration of RMB19,599.6 million.

As at 31 December 2018, the gross floor area of total land bank of the Group and its joint ventures in China reached 21,340,000 sq.m., of which, 252,900 sq.m. was held by joint ventures. The gross floor area of land bank attributable to the Group (including the interests in joint ventures) was 19,976,500 sq.m.. The Group held a land bank distributed in 22 cities as at 31 December 2018.

SEGMENT INFORMATION

PROPERTY SALES AND DEVELOPMENT

Leveraged with a quality driven national brand name, the Group focused on the cities with high investment value and developed a wide range of tailored and high graded housing products, including flats with different layouts, sizes and orientations, to suit specific needs of different local markets and customers. As a result, the Group was able to sustain its leading market position in these cities despite of challenging property market environment.

The Group remained focus at boosting contracted property sales. Riding on the strong sales momentum of last year and benefited from the relative stable market condition of the cities where it had operation, contracted property sales of the Group and its associates and joint ventures for the year ended 31 December 2018 amounted to HK$50,540.2 million (2017: HK$37,068.3 million), for an aggregated contracted area of 3,998,500 sq.m. (2017: 3,411,900 sq.m.), (in which, HK$974.5 million (2017: HK$4,633.7 million) for an aggregated contracted area of 45,600 sq.m. (2017: 250,300 sq.m.) was contributed by associates and joint ventures) representing an increase of 36.3% and 17.2% respectively against the last year. At year end date, the balance of preliminary sales pending the completion of sales and purchase agreements was HK$1,716.0 million for an aggregated contracted area of 141,200 sq.m.. Furthermore, of the contracted property sales, HK$13,323.7 million was contributed by the property portfolio acquired from China Overseas Land & Investment Limited ("COLI") in the end of 2016. Over the past two years, the portfolio, including the projects in associate companies, has generated HK$21,062.4 million contracted property sales accumulatively for the Group.

Total Land Bank:

21.3 million sq.m.

Attributable Land Bank:

20.0 million sq.m.

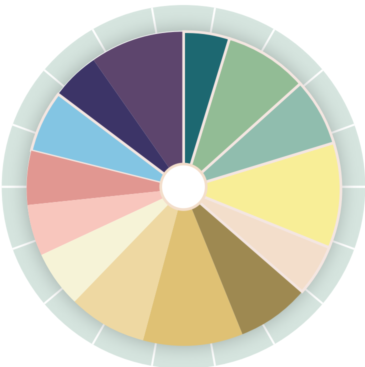
		Total GFA (Thousand sq.m.)	%	Attributable GFA (Thousand sq.m.)	Attributable %
1	Jilin	959.0	4.5	900.6	4.5
2	Yinchuan	2,393.0	11.2	2,084.8	10.4
3	Hefei	876.8	4.1	857.9	4.3
4	Nanning	1,140.1	5.3	1,140.1	5.7
5	Lanzhou	753.4	3.5	753.4	3.8
6	Ganzhou	965.5	4.5	937.8	4.7
7	Yancheng	665.3	3.1	665.3	3.3
8	Yangzhou	1,317.0	6.2	1,284.8	6.4
9	Nantong	642.0	3.0	545.3	2.7
10	Changzhou	297.3	1.4	297.3	1.5
11	Shantou	2,516.9	11.8	2,334.6	11.7
12	Huizhou	1,355.2	6.4	1,355.2	6.8
13	Jiujiang	1,887.9	8.8	1,887.9	9.5
14	Huangshan	249.5	1.2	137.2	0.7
15	Weifang	1,821.2	8.5	1,821.2	9.1
16	Zibo	857.9	4.0	857.9	4.3
17	Xuzhou	484.9	2.3	223.6	1.1
18	Xining	636.0	3.0	636.0	3.2
19	Hohhot	249.8	1.2	249.8	1.3
20	Baotou	578.1	2.7	393.5	2.0
21	Liuzhou	269.6	1.3	188.7	0.9
22	Jining	423.6	2.0	423.6	2.1
Total		**21,340.0**	**100**	**19,976.5**	**100**

PROPORTION OF CONTRACTED PROPERTY SALES# BY CITIES

TOTAL PROPERTY SALES:

2018

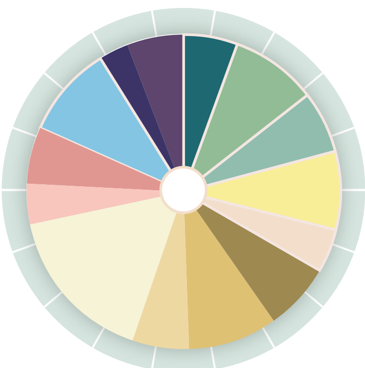
HK$50.5 billion



5.0%	Changzhou
8.5%	Ganzhou
6.9%	Hefei
10.8%	Huizhou
5.3%	Jilin
7.6%	Nanning
10.1%	Nantong
8.2%	Shantou
5.8%	Weifang
5.3%	Xining
5.4%	Yancheng
6.4%	Yangzhou
5.2%	Yinchuan
9.5%	Others

2017

HK$37.1 billion



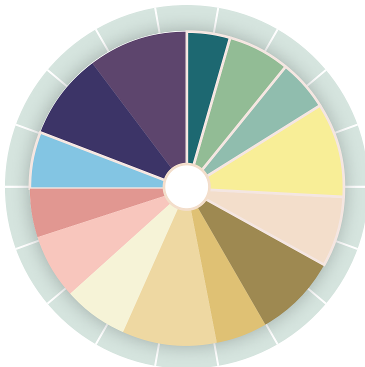
5.8%	Changzhou
8.8%	Ganzhou
6.3%	Hefei
8.0%	Huizhou
4.7%	Jilin
6.7%	Lanzhou
9.4%	Nanning
5.6%	Nantong
16.4%	Shantou
4.2%	Weifang
5.9%	Yancheng
9.4%	Yangzhou
3.2%	Yinchuan
5.6%	Others

PROPORTION OF CONTRACTED AREA SOLD# BY CITIES

TOTAL CONTRACTED AREA SOLD:

2018

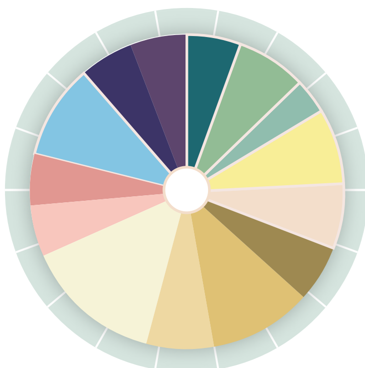
3,998,500 sq.m.



4.5%	Changzhou
6.5%	Ganzhou
5.2%	Hefei
9.9%	Huizhou
7.2%	Jilin
8.4%	Nanning
5.4%	Nantong
9.7%	Shantou
6.7%	Weifang
6.7%	Xining
4.9%	Yancheng
6.0%	Yangzhou
8.7%	Yinchuan
10.2%	Others

2017

3,411,900 sq.m.



5.7%	Changzhou
7.3%	Ganzhou
3.4%	Hefei
7.8%	Huizhou
6.8%	Jilin
5.9%	Lanzhou
10.5%	Nanning
6.9%	Nantong
14.2%	Shantou
5.3%	Weifang
5.3%	Yancheng
9.7%	Yangzhou
5.4%	Yinchuan
5.8%	Others

Included associates and joint ventures

SEGMENT INFORMATION (CONTINUED)

PROPERTY SALES AND DEVELOPMENT (Continued)

Contracted property sales from major projects during the year:

City	Name of project	Contracted Area (sq.m.)	Amount (HK$ Million)
Huizhou	Harbour City	212,950	3,054.5
	Triumph Town	179,826	2,246.0
Nantong	Central Mansion	130,702	3,393.7
	Times Metropolis	70,114	1,590.6
Ganzhou	One Riverside Park	138,214	2,373.4
	The Cullinan	67,612	1,253.4
	International Community	45,200	578.3
Shantou	Huating	235,510	1,764.8
	La Cite	106,553	1,762.8
Nanning	International Community	304,694	3,539.9
Hefei	Coli City	182,809	2,895.8
	Central Mansion	11,433	508.8
Yangzhou	Yangzhou Jiajing	62,402	798.9
	Yangzhou Jinyuan	45,631	733.2
	Glory Manor	52,251	621.7
	Eternal Treasure	27,399	453.1
	Grand Polis	23,792	309.3
	The Grand Canal	21,861	306.2
Weifang	Da Guan Tian Xia	266,954	2,922.7
Xining	Glorioushire	269,078	2,699.2
Yancheng	The Glorious	176,212	2,341.5
	The Paragon	10,127	317.1
Yinchuan	International Community	348,193	2,618.4
Jilin	International Community	279,913	2,614.6

SEGMENT INFORMATION (CONTINUED)

PROPERTY SALES AND DEVELOPMENT (Continued)

Progress for all development projects was satisfactory and largely in line with the construction programs. During the year, gross floor area of nearly 2,750,300 sq.m. of construction sites were completed for occupation and of which, about 98% was sold out by year end. The Group continuously accelerated the property sales and also seized opportunities, after cautious assessment, to acquire quality land pieces with high investment potential at reasonable prices to safeguard its healthy financial position and achieve sustainable development scale.

For the year ended 31 December 2018, revenue from property sales increased by 26.3% against last year to HK$25,274.1 million (2017: HK$20,004.7 million), of which, around 21% was generated from the aforesaid properties portfolio acquired from COLI. Same as last year, revenue for the year was mainly recognized from the sales of high-rise residential projects.

Recognized revenue from major projects during the year:

City	Name of project	Contracted Area (sq.m.)	Amount (HK$ Million)
Yangzhou	The Grand Canal	123,491	1,390.5
	Yangzhou Jiajing	74,407	773.3
	Yangzhou Jinyuan	29,913	668.9
Jilin	International Community	386,699	2,504.3
Shantou	La Cite	204,938	1,790.2
	Huating	51,101	480.7
Lanzhou	China Overseas Plaza	165,592	1,607.3
	Glorioushire	67,921	581.7
Nantong	The Aqua	176,222	1,517.5
	Central Mansion	18,606	523.1
Ganzhou	International Community	149,635	1,962.8
Nanning	International Community	126,977	1,200.7
	Royal Lakefront	44,982	414.2
Yinchuan	International Community	243,688	1,457.8
Yancheng	The Glorious	96,055	1,348.2
Huizhou	Harbour City	37,470	774.4
	Triumph Town	18,373	477.5
Changzhou	The Phoenix	112,076	1,235.8
Weifang	Da Guan Tian Xia	155,525	1,173.0

As a result of stable property market in the past few years, average selling prices of the properties handed over and recognized in the year increased, leading to the growth of the gross profit margin from 19.4% of last year to 28.6% this year.

For the property portfolio acquired from COLI, its development progress and the handover schedules matched the plan. The selling price of the properties increased while the gross margin was in line with the expectation of the management.

SEGMENT INFORMATION (CONTINUED)

PROPERTY SALES AND DEVELOPMENT (Continued)

Following the recognition of profit from projects gradually, the net profits contribution from the associate and joint ventures was HK$273.4 million (2017: HK$28.4 million). The project development progress and returns are within expectation.

Hence, the segment result increased 112.4% to HK$6,268.3 million (2017: HK$2,951.0 million) for the year.

In addition to the above, the following projects had commenced the construction work in the year:

City	Name of project	Construction commenced
Changzhou	Platinum Mansion (previously named as "Tianning District Project")	April 2018
Ganzhou	The Riverside (previously named as "Jingkai District Project")	June 2018
Hefei	Shushan District Project #1	September 2018
Xuzhou	Patrimonial Mansion (previously named as "Gulou Project")	September 2018
Xuzhou	Treasure Mansion (previously named as "Gulou Project")	September 2018
Baotou	Xindoushi District Project	December 2018
Hefei	Shushan District Project #2	December 2018
Liuzhou	Yufeng District Project	December 2018
Huizhou	Huicheng District Project	December 2018
Jining	Rencheng District Project	December 2018

Further details of the respective projects are shown in the Particulars of Major Properties & Property Interests on page 189 to page 198 in the annual report.

At year end date, the gross floor area of properties under construction and stock of completed properties amounted to 9,449,800 sq.m. and 869,600 sq.m. respectively, totaling 10,319,400 sq.m.. Properties with gross floor area of 5,132,500 sq.m. had been contracted for sales and were pending for handover upon completion.

SEGMENT INFORMATION (CONTINUED)

PROPERTY LEASING

As described above, in response to the change in local market conditions, the leasing business development plan in relation to China Overseas Building located in Jilin has changed to sales, in the form of sub-unit. Approximate 90% of the gross floor area of the building was hand over to the buyers.

For the year ended 31 December 2018, rental income increased by HK$16.8 million year-on-year to HK$223.4 million (2017: HK$206.6 million). The leasing business remained stable in general. In the year, there was no fair value gain arising from investment properties (2017: HK$191.8 million) while the contribution from the joint venture also decreased to HK$5.0 million (2017: HK$18.9 million) mainly due to no fair value gain arising from its investment properties and thus, the segment profit, after factoring in the gain on disposal of investment properties of HK$2.2 million, decreased by HK$198.4 million year-on-year to HK$167.3 million (2017: HK$365.7 million).

Xining – Glorioushire

At year end date, 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 88% (31 December 2017: 90%) and 87% (31 December 2017: 90%) respectively. The Group wholly owns the Beijing properties while it holds 65% of the Shanghai project.

FINANCIAL RESOURCES AND LIQUIDITY

The Group has consistently adopted prudent financial management approach and its financial condition remained healthy. 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 in working capital, refinancing and project development.

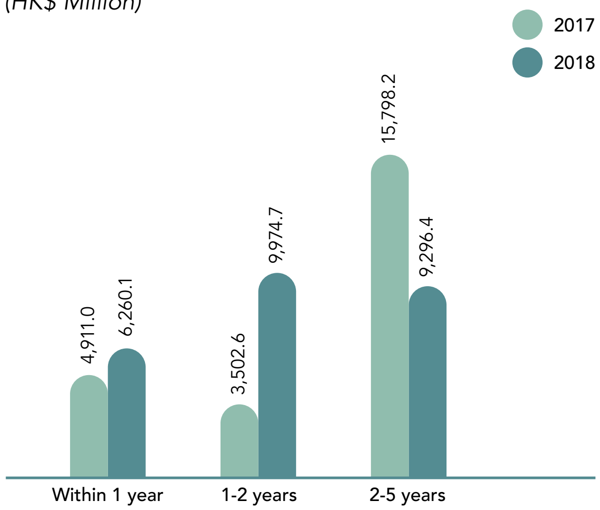
The Group actively enhanced its capital base and strengthened its financial position in the year under review. In February 2018, the Group successfully raised a net proceeds of HK$4,607.7 million (net of expenses amounted approximately HK$48.1 million) by way of rights issue on the basis of one rights share for every two shares with subscription price of HK$4.08 per share. Moreover, as aforesaid, in June 2018, the Group successfully completed the issuance of a 3-year US$500 million guaranteed notes with coupon rate at 4.875% per annum.

As at 31 December 2018, net working capital amounted to HK$42,127.8 million (31 December 2017: HK$35,204.0 million), with a quick ratio of 0.6 (31 December 2017: 0.6).

Yinchuan – International Community

Debt# Maturity Profile

(HK$ Million)



excluding guaranteed notes payable

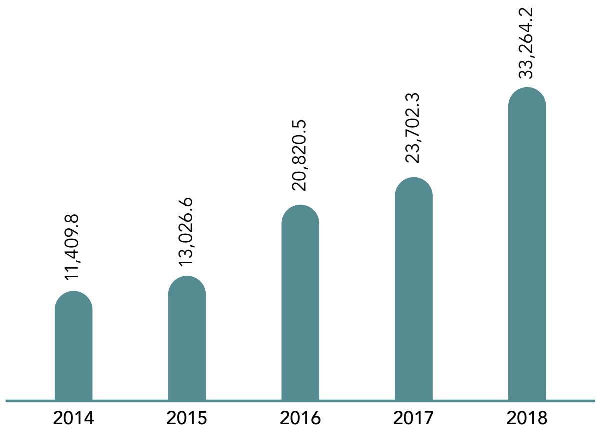
FINANCIAL RESOURCES AND LIQUIDITY (CONTINUED)

During the year, the Group secured new credit facilities of approximately HK$14,771.0 million from leading financial institutions. After taking into account drawdowns of HK$11,623.4 million, repayment of loans of HK$9,637.7 million and decrease of HK$666.3 million due to translation of RMB loan, total bank and other borrowings (exclude the guaranteed notes payable of HK$7,135.7 million) increased by HK$1,319.4 million to HK$25,531.2 million as compared to the end of last year.

Of the total bank and other borrowings, RMB loan amounted to RMB13,415.6 million (equivalent to HK$15,311.2 million) while the Hong Kong Dollar loan and US Dollar loan amounted to HK$8,283.1 million and HK$1,936.9 million respectively. As at year end, interests of borrowings amounted to HK$2,193.6 million were charged at fixed rate from 3.4% to 3.8% while the remaining borrowings of HK$23,337.6 million were charged at floating rates with a weighted average of 4.58% per annum. About 24.5% of bank and other borrowings is repayable within one year.

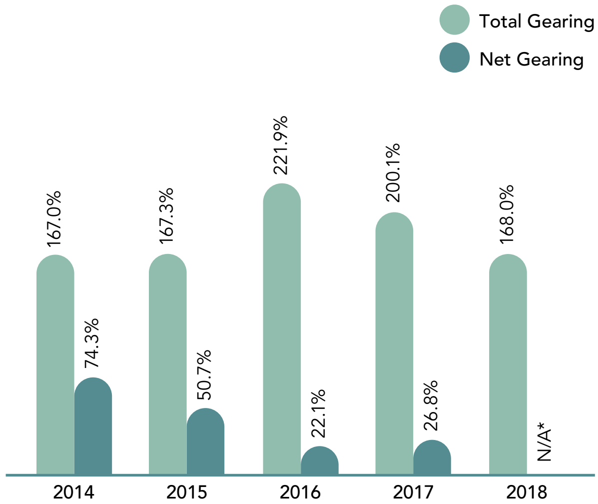
Cash Reserves

(HK$ Million)



The Group has unutilized bank credit facilities of HK$8,278.5 million as at 31 December 2018

Gearing Ratio



* *Net cash*

FINANCIAL RESOURCES AND LIQUIDITY (CONTINUED)

In respect of guaranteed notes, as mentioned above, the Group completed the issuance of the US$500 million 4.875% guaranteed notes due in 2021 in June 2018 so as to secure sufficient liquidity. The proceeds of this guaranteed notes will be largely applied for the repayment of US$400 million 5.125% guaranteed notes due in January 2019. Therefore, the total amortized cost payable of these two guaranteed notes amounted to HK$7,135.7 million as at 31 December 2018, of which the US$400 million guaranteed notes have been redeemed on mature date accordingly.

Properties sales for the year increased significantly and sales deposits collection was satisfactory. Together with the undertaking of rights issues and issuance of guaranteed notes during the year, cash and bank balances plus restricted cash and deposits further increased to HK$33,264.2 million in total as at 31 December 2018, 40.3% higher as compared with the last financial year end (31 December 2017: HK$23,702.3 million). Of which, 90.2% is denominated in RMB while the remaining is in US Dollar (9.6%) and Hong Kong Dollar (0.2%).

As at 31 December 2018, the Group was at net cash position (net gearing ratio as at 31 December 2017: 26.8%). The net gearing ratio, expressed as a percentage of net debts (i.e. total borrowings, including the guaranteed notes, net of cash and bank balances and restricted cash and deposits) to equity attributable to owners of the Company. The management believed that maintaining a strong financial position was crucial in an uncertain market and could further support the Group for business expansion.

Taking into account of the unutilized bank credit facilities available to the Group of HK$8,278.5 million, the Group's total available funds (including restricted cash and deposits of HK$7,902.6 million) reached HK$41,542.7 million as at 31 December 2018. 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 has sufficient resources to satisfy its commitment and working capital needs.

In terms of capital management, the Group implements centralized financing and treasury policies to ensure efficient fund utilization.

FINANCIAL RESOURCES AND LIQUIDITY (CONTINUED)

The Group manages its capital structure with the objective to maximize its shareholders' returns in the long term by maintaining a healthy financial position, sustainable gearing structure and reasonable finance costs in the built-up of an optimal operation scale. Regarding the net proceeds raised from the above-mentioned rights issue of HK$4,607.7 million, the entire sum has been fully utilized in the year that approximately HK$3,849.4 million, HK$321.8 million and HK$436.5 million were applied for repayments of bank loans, business development and general working capital respectively.

As a result of the initial adoption of HKFRS 15 during the year, 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. The amount, coupled with the net proceeds of HK$4,607.7 million raised from the rights issue, increased the equity interests of the owner of the Company by HK$5,056.6 million.

To support the growth of the business, the Group would closely monitor the financial market and explore opportunities to enter into appropriate long-term financing to further optimize its debt profile and strengthen its capital structure continuously.

Except for the aforesaid interest rate swap contract, the Group did not have any financial derivatives either for hedging or speculative purpose as at 31 December 2018.

The Group regularly re-evaluates its operational and investment position and endeavour to improve its 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. However, as at 31 December 2018, about 46.9% and 53.1% 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.

The exchange rate of RMB to Hong Kong Dollar fell by 4.6% in the year and accordingly, the net asset value of the Group decreased by HK$1,547.3 million.

To better manage its exchange rate risk, the Group has reduced the proportion of Hong Kong Dollar/US Dollar loan in its entire borrowings portfolio from 67.4% of last year end to 53.1% as at 31 December 2018. The Group would continue to closely monitor the volatility of the RMB exchange rate. In view of the lower finance costs for borrowings in Hong Kong Dollar, the management, after balancing the finance cost and foreign currency risks, would review its financing strategy regularly to optimize the ratio of RMB and Hong Kong Dollar/US Dollar debt to minimize the foreign exchange risk.

COMMITMENTS AND GUARANTEE

As at 31 December 2018, the Group had commitments totaling HK$14,931.6 million which related mainly to land costs, property development and construction works. In addition, the Group issued guarantees to banks totaling HK$33,704.1 million (equivalent to RMB29,531.3 million) 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$73.9 million approximately during the year, mainly referred to additions in hotel construction in progress.

On the other hand, as at 31 December 2018, certain property assets in China with aggregate carrying value of HK$480.2 million were pledged to obtain HK$103.3 million (equivalent to RMB90.5 million) of secured borrowings from certain banks in China for the projects.

EMPLOYEES

As at 31 December 2018, the Group has 2,156 employees (31 December 2017: 1,855). The increase in the number of employees was mainly due to business growth and expansion of operating scale.

The Group is keen to motivate and retain talent and reviews the remuneration policies and packages on a regular basis to recognize employee contributions and respond to changes in the employment market. The total staff costs incurred for the year ended 31 December 2018 was approximately HK$704.5 million (2017: HK$580.5 million). The pay levels of the employees are determined based on their responsibilities, performance and the prevailing market condition. Discretionary bonus was paid to employees based on individual performance while other remuneration and benefits, including the provident fund contributions/retirement pension scheme, remained at appropriate levels. Different trainings and development opportunities continued to be offered to sharpen employees' capabilities to meet the pace of business growth.

KEY RISKS FACTORS AND UNCERTAINTIES

The Group monitors the development of the industry on regular basis and timely assesses different types of risks in order to formulate proper strategies to minimize the impact to the Group. The following contents list out the key risks and uncertainties identified by the Group:

INVESTMENT RISK

The property market in China diverges with uneven growth among different cities and districts. Under the city-specific policies, it is critical for the Group to replenish and acquire suitable land bank at suitable sites at reasonable price for healthy and continuous growth.

The Group sticks firmly to its prudent investment approach and expands its operating scale in an organized manner. The Group would continue to perform comprehensive due diligence review on new business opportunities and selected cautiously the appropriate projects for investment.

DEBT REPAYMENT RISK

The financial market is complicated and fast-changing. Cash flow management is one of the major business risks of property development business, which is capital intensive in nature. The risk is mainly arising from lower than expected cash collection from sales and failure to refinance debt upon maturity.

To preserve sufficient cash flow and safeguard financial health, the Group would continue to expedite property sales and cash collection, remain discreet in land bank replenishment, harmonize the development pace with market conditions and strengthen stock management. The Group would continue to maintain the satisfactory relationships with financial institutions and ensure continual fulfillment of the financial covenants. Besides, the Group would also further explore opportunities of different financing accesses to broaden its funding channels.

KEY RISKS FACTORS AND UNCERTAINTIES (CONTINUED)

FOREIGN EXCHANGE RISK

Over the past few years, the exchange rate of RMB has been increasingly market oriented and fluctuated according to the global economic environment. As aforesaid, under the existing debt financing structure, the Group is subject to foreign exchange risk from the volatility of RMB exchange rate.

To better manage its exchange rate risk, the Group has gradually adjusted the proportion of RMB loan in its entire borrowings portfolio. The Group would continue to actively monitor the volatility of RMB exchange rate and after balancing the finance cost and risks, would review the financing strategy constantly to optimize the ratio of RMB and Hong Kong Dollar/US Dollar debt at appropriate time to minimize the foreign exchange risk.

MARKET RISK

China's real estate market is susceptible to different factors such as government policies and regulations, economic growth, social environment, customer demands, etc.

The Group is kept abreast with the changes in business environment and regulatory, and timely assesses the impacts on the operations in order to formulate the best strategy for persisted growth. Benefited from the national brand for excellence product, the Group would develop different types of properties tailored for different customers in different regions and enhance customer services. Moreover, the Group would alter the construction program of the projects to match the sales status so that the stock level could be optimized while the supply of properties could still be warranted.

PRODUCT QUALITY RISK

Property developer has to manage the risk of work quality of major contractors. Reputation of the developer would be dampened by sub-standard housing products arising from improper work procedures and poor site management.

With extensive experience in the property development business, the Group has established a well-defined quality assessment system and would strictly regulate the construction work process in order to ensure smooth running and quality of the property development projects.

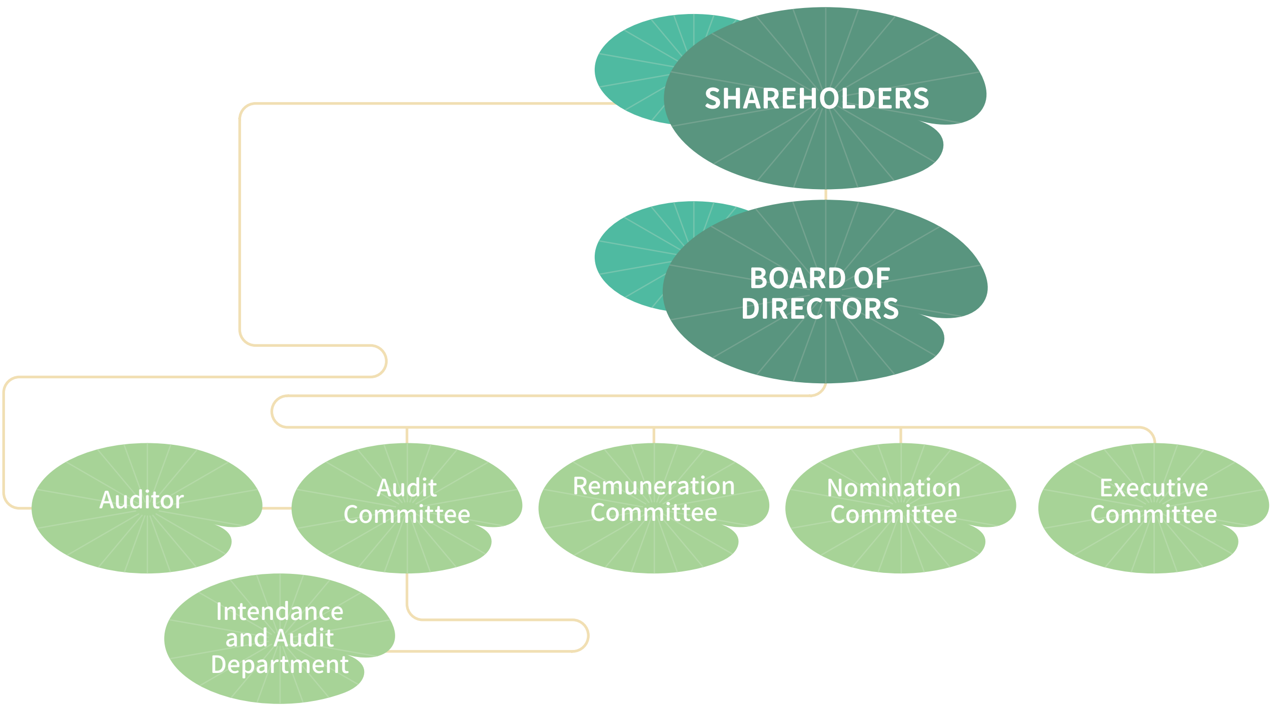
Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Group strives to raise the standard of 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.

CORPORATE GOVERNANCE STRUCTURE

The following are key players involved in ensuring the application of good governance practices and policies within the Group and their major roles and explanations of their corporate governance practices and policies are set out in the following report:



BOARD OF DIRECTORS

MANAGEMENT FUNCTIONS

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies and budgets, major investments as well as mergers and acquisitions. With respect to the day-to-day operations of the business, the Board has delegated its powers to the Executive Committee and the management. In addition, the Directors have acknowledged that the principal responsibilities of the Board include supervising and administrating the operation and financial position of the Company, enhancing corporate governance practices and promoting the communication with our shareholders.

BOARD OF DIRECTORS (CONTINUED)

BOARD COMPOSITION

Our Board currently comprises eight members drawn from diverse and complementary backgrounds and experience:

Name of Directors	Background*
Mr. Yan Jianguo *(Chairman and Non-executive Director)*	Construction business, real estate investment and management
Mr. Yung Kwok Kee, Billy *(Vice Chairman and Non-executive Director)*	Property development and general corporate management
Mr. Zhang Guiqing *(CEO and Executive Director)*	Property development and general corporate management
Mr. Wang Man Kwan, Paul *(CFO and Executive Director)*	Finance and investment
Mr. Yang Lin *(Vice President and Executive Director)*	Property development and general corporate management
Dr. Chung Shui Ming, Timpson *(Independent Non-executive Director)*	Finance and investment
Mr. Lam Kin Fung, Jeffrey *(Independent Non-executive Director)*	General corporate management
Mr. Lo Yiu Ching, Dantes *(Independent Non-executive Director)*	Construction and public administration

* *Full biographies of the Directors are set out in the section headed "Directors and Organization" of this annual report.*

During the year, the Company has complied with Rules 3.10 and 3.10(A) of the Listing Rules regarding the appointment of at least three independent non-executive directors including at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The Board has received annual written confirmation of independence from each of the Independent Non-executive Directors and believes that, as at the date of this annual report, they are independent of the Company in accordance with the relevant requirement of the Listing Rules.

Pursuant to the CG Code A.4.3, serving more than nine years could be relevant to the determination of a non-executive director's independence. Although Mr. Lo Yiu Ching, Dantes will be serving as Independent Non-executive Directors for more than nine years, the Directors opined that he still has the required character, integrity, independence and experience to fulfill the role of an Independent Non-executive Director. The Directors consider that there is no evidence that length of tenure has an adverse impact on independence of the Independent Non-executive Directors and the Directors are not aware of any circumstances that might influence Mr. Lo in exercising his independent judgement. Based on the aforesaid, the Directors concluded that despite his length of service, he will continue to maintain an independent view of the Company's affairs and bring his relevant experience and knowledge to the Board.

CHAIRMAN AND CEO

The roles between the Chairman of the Board and the Chief Executive Officer are separate to ensure a balance of power and authority.

BOARD OF DIRECTORS (CONTINUED)

CHAIRMAN AND CEO (CONTINUED)

Mr. Yan Jianguo is the Chairman of the Board to lead and manage the Board. He is also responsible for ensuring that before any meeting is held, all Directors receive complete and reliable information in a timely manner and that Directors are properly briefed on issues arising at the meetings. He also ensures that the Board works effectively and discharges its responsibilities; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with shareholders and those views of shareholders are communicated to the Board as a whole. The Chairman also holds meeting annually with the Non-executive Directors to discuss corporate governance and other matters without the Executive Directors present.

Mr. Zhang Guiqing is the Chief Executive Officer of the Company who is responsible for the implementation of strategies and objectives set by the Board and is responsible for day- to-day management of the Company's businesses.

APPOINTMENTS, RE-ELECTION AND REMOVAL

In accordance with the articles of association of the Company, one-third of the Directors will retire from office by rotation for re-election by shareholders at the annual general meeting. In addition, any new appointment to the Board is subject to re-appointment by shareholders at the upcoming general meeting.

All Directors have entered into service contracts with the Company. All Independent Non-executive Directors are appointed for a term of three years commencing from 1 August 2017 and the other Directors are not appointed for a specific term of office.

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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code. Having made specific inquiries to Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2018.

DIRECTORS AND OFFICERS LIABILITIES INSURANCE

The Company has arranged appropriate insurance cover in respect of legal action against Directors and officers.

SUPPLY OF AND ACCESS TO INFORMATION

Full Board or committee meeting papers will be sent to all Directors at least three days before the intended date of a Board meeting or committee meeting.

Management has supplied the Board and its committees with adequate information and explanations so as to enable them to make an informed assessment of the financial and other information put before the Board and its committees for approval. Management is also invited to join the Board or committee meetings where appropriate.

All the Directors are also entitled to have access to timely information such as monthly updates in relation to the Company's businesses and have separate and independent access to senior management.

DIRECTORS' TRAINING

According to the records of training maintained by the Company, during the financial year under review, all the Directors have participated continuous professional developments to refresh their knowledge and skills. The details of their training are set out as follows:

Name of Directors	Type of Training *(see remarks)*
Mr. Yan Jianguo	A, B, C
Mr. Yung Kwok Kee, Billy	A, C
Mr. Zhang Guiqing	A, B, C
Mr. Wang Man Kwan, Paul	A, B, C
Mr. Yang Lin	A, C
Dr. Chung Shui Ming, Timpson	A, C
Mr. Lam Kin Fung, Jeffrey	A, C
Mr. Lo Yiu Ching, Dantes	A, C

Remarks:
A: attending seminars or trainings
B: giving talks at seminars
C: reading materials relevant to the director's duties and responsibilities

In addition, every newly appointed Director will receive an induction on the first occasion of his appointment, so as to ensure that he has a proper understanding of the operations and business of the Company, and his responsibilities under laws, regulations and especially the governance policies of the Company.

CORPORATE STRATEGY AND BUSINESS MODEL

Details of the Group's strategy, business model and financial review in the year 2018 are set out in the "Chairman's Statement" and "Management Discussion and Analysis" section set out pages on 6 to 29 of this annual report.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the relevant laws and standards. Appropriate accounting policies are selected and applied consistently; judgements and estimates made are prudent and reasonable. The Directors endeavour to ensure that a balanced, clear and understandable assessment of the Company's position and prospects are presented in annual reports, interim reports, announcements and other disclosures required under the Listing Rules and other statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has implemented effective systems of risk management and internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, reliable financial information are provided for management and publication purposes and significant investment and business risks affecting the Group are identified and properly managed. Furthermore, these systems help the Group comply with applicable laws and regulations, and also internal policies with respect to the conduct of businesses of the Group. However, they are designed to manage rather than eliminate the downside risk to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established the Intendance and Audit Department (the "Department") so as to enhance a good internal control environment. The Department provides risk management and internal control assessment reports to the management on a regular or ad hoc basis and the Company establishes the following principal operating standards to improve internal control systems:

- "Policy Management Measure"
- "Implementation Management Measure of the Decision-making System for the Major Issues, Major Personnel Appointments and Dismissals, Investments in Major Projects and Use of Large Sums of Money"
- "Financial Management System"
- "Legal Management System"
- "Accounting Management System"
- "Planning and Design Management System "
- "Operation Management System"
- "Customer Services Management System "
- "Sales Management System"
- "Cost and Contract Management System"
- "Intendance and Audit Management System"

According to the annual audit schedule, the Department has completed on-site audits in respect of the auditing of economic responsibilities of the outgoing executives for Jilin Company, Yancheng Company, Lanzhou Company, Changzhou Company, Jiujiang Company and Hefe Company and the auditing of the overall operating conditions of Hohhot Company. The Department prepared the respective audit reports and the subject companies have rectified any system weakness in a timely manner in accordance with the opinion set out in the audit reports.

In addition to carrying out the routine audit, the Department has carried out a special audit on the compliance of construction of the Company. The Department conducted audits for Shantou, Huizhou, Weifang and Xuzhou companies, on-site review inspections in Nantong, Changzhou, Yangzhou and Ganzhou companies and provided advice and recommendation on how to resolve various issues relating to compliance of construction discovered during the audit process.

ACCOUNTABILITY AND AUDIT (CONTINUED)

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Since 2017, the Department has enhanced the supervision of rectifying issues identified during the audit process by requiring the subject unit to report the progress of audit issue rectification biannually and by recording such progress in a register.

In addition, the Department also regularly reviews and reports to the Audit Committee and the Board on risk management and internal control affairs of the Company on half-yearly basis. In the report, the Department will discuss the principal business risk faced by the Company and confirm whether the risk management and internal control systems are effective. The Audit Committee will review and evaluate the business risk and the measures to manage such risk. The Audit Committee will also review the Department's findings concerning business and operation control systems and action plans to address any control system weakness. In addition, the external auditors also discuss regularly with the Audit Committee concerning any control issues identified in the course of their audit. After reviewing the effectiveness of the internal control systems, the Audit Committee will then report to the Board any weakness in the system and recommendations to manage the business risk and rectify any control weakness.

The Board is responsible for and has reviewed the efficiency of risk management and internal control systems of the Company and its subsidiaries in aspects such as financial reporting, operation and regulatory compliance throughout 2018 and the Board considers that these systems are effective and efficient. No significant system weaknesses have been identified in the reviews during the year and appropriate actions are also taken to rectify any control deficiencies, if any. The Directors believe that these systems are efficient and effectively control the risks that may have impacts on the Company in achieving its goals.

The Board has also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting function, and their training programmes and budget.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company regularly reminds the Directors, senior management and employees about due compliance with all policies regarding the inside information and keeps them appraised of the latest regulatory updates. Employees who are privy or have access to inside information have also been notified on observing the restrictions from time to time pursuant to the relevant requirements.

DELEGATION BY THE BOARD

BOARD PROCEEDINGS

The Board held five meetings during the year and meetings were also held as and when necessary to discuss significant transactions, including material acquisitions, disposals and connected transactions, if any. All Directors can give notice to the Chairman or the Company Secretary if they intend to include matters in the agenda for Board meetings. Before each Board meeting, notice of at least 14 days or sufficient notice of meeting was sent to each Director to promote better attendance.

After meetings, draft and final versions of all minutes for Board meetings and committee meetings will be sent to all Directors for their review. The approved minutes are kept by the Company Secretary, and the Board and committee members may inspect the documents at anytime.

All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with. Where necessary, the Directors can seek separate independent professional advice at the Company's expenses so as to discharge their duties to the Company.

To safeguard their independence, Directors are required to declare their interest, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from voting. In 2018, Mr. Yan Jianguo abstained from voting in two meetings due to a potential conflict of interest. In addition, physical broad meetings will be held to consider all material connected transactions or any transactions in which a substantial shareholder or a Director has material interest.

DELEGATION BY THE BOARD (CONTINUED)

BOARD COMMITTEES

Currently, the Board has set up four committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee to implement internal supervision and control on each relevant aspect of the Company.

EXECUTIVE COMMITTEE

Major responsibilities and functions of the Executive Committee are as follows:

- To review and approve loans or banking facilities to be granted to the Group and the opening of bank or securities related accounts matters;
- To review and monitor training and continuous professional development of Directors and senior management;
- To oversee all matters and to formulate policies in relation to the Company's corporate governance functions; and
- To deal with any other specific business delegated by the Board.

The Executive Committee comprises the Chairman, Chief Executive Officer and all Executive Directors of the Company.

During the year, the Executive Committee held 16 meetings to (amongst other matters):

- review and approve various bank loans and facilities;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and
- bring the members of the Board up-to-date on the latest developments of regulatory issues and corporate governance.

AUDIT COMMITTEE

The principal duties of the Audit Committee are as follows:

- To review the financial statements of the Group;
- To review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls and risk management; and
- To review risk management and monitor the scope, effectiveness and results of internal audit function.

The Audit Committee comprises three members, namely Dr. Chung Shui Ming, Timpson, Mr. Lam Kin Fung, Jeffrey and Mr. Lo Yiu Ching, Dantes, all of whom are Independent Non-executive Directors. The Audit Committee is chaired by Dr. Chung Shui Ming, Timpson. For the purpose of reinforcing their independence, there should be at least one member of the Audit Committee with appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held four meetings during 2018 and has reviewed:

(i) the Group's financial reports for the year ended 31 December 2017, interim and quarterly results;

(ii) the audit plans from the external auditor;

(iii) the internal and independent audit results;

(iv) the connected transactions entered into by the Group;

(v) risk management, internal control and financial reporting systems; and

(vi) the re-appointment of the external auditor and their remuneration.

The Audit Committee also met with the auditor twice a year in the absence of management to discuss matters relating to any issues arising from audit and any other matters the auditor may wish to raise.

DELEGATION BY THE BOARD (CONTINUED)

REMUNERATION AND NOMINATION OF DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION COMMITTEE

The principal duties of the Remuneration Committee are as follows:

- To make recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management;
- To make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management; and
- To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The remuneration of the Directors approved by the shareholders is determined by the Board with reference to certain factors such as salaries paid by comparable companies, time commitment, responsibilities of the Directors and employment conditions.

During the year, the Remuneration Committee has the following members, the majority of whom are Independent Non-executive Directors:

- Mr. Lam Kin Fung, Jeffrey (Chairman)
- Mr. Yung Kwok Kee, Billy
- Dr. Chung Shui Ming, Timpson
- Mr. Lo Yiu Ching, Dantes
- Mr. Zhang Guiqing

The Remuneration Committee held one meeting during 2018 and has reviewed:

(i) the remuneration policy of the Group and Directors' remunerations; and

(ii) the remuneration package of individual Executive Directors and Non-executive Directors.

NOMINATION COMMITTEE

The following are major responsibilities and duties of the Nomination Committee:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board;
- To identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships;
- To assess the independence of Independent Non-executive Directors; and
- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The Board has adopted a board diversity policy effective on 29 July 2013. The policy requires that all Board appointments shall be based on merit and selection of candidates shall be based on a range of diversity factors. The Nomination Committee is responsible for developing measurable objectives to implement this policy and for monitoring progress towards the achievement of these objectives.

As at the date of this annual report, the Board comprises eight Directors and three of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process.

In addition, a proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are experienced and high calibre individuals. All candidates must be able to meet the standards and criteria set out in the Listing Rules and the Company's nomination policy which has been adopted by the Board in October 2018.

DELEGATION BY THE BOARD (CONTINUED)

NOMINATION COMMITTEE (CONTINUED)

During the year, the Nomination Committee has the following members, the majority of whom are Independent Non-executive Directors:

- Mr. Lo Yiu Ching, Dantes (Chairman)
- Mr. Yan Jianguo
- Dr. Chung Shui Ming, Timpson
- Mr. Lam Kin Fung, Jeffrey

The Nomination Committee held two meetings during the year and has approved the nomination policy and reviewed the rotation and appointment of Directors.

COMPANY SECRETARY

Mr. Edmond Chong was appointed as the Company Secretary of the Company since 2011. According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training during the year.

COMMUNICATION WITH SHAREHOLDERS

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses relevant information monthly and quarterly so that the investors can have a better understanding about the Company's operations.

A shareholders' communication policy was adopted throughout the year pursuant to the CG Code which aims at establishing a two-way relationship and communication between the Company and its shareholders.

The Company also holds regular meetings with financial analysts and investors, during which the Company' s management will provide relevant information and data to the financial analysts, fund managers and investors, as well as answer their enquiries in a prompt, complete and accurate manner. The Company's website is updated continuously, providing up-to-date information regarding every aspect of the Company.

Save as disclosed above, the Company has strictly complied with all code provisions set out in CG Codes in 2018.

SHAREHOLDERS' RIGHTS

PROCEDURES FOR SHAREHOLDERS TO CONVENE A GENERAL MEETING ("GM")

Pursuant to the articles of associations of the Company, GM shall be convened on request by shareholders, or, in default, may be convened by the requesting shareholders in accordance with the Companies Ordinance.

According to the Companies Ordinance, shareholders of the Company representing at least 5% of the total voting rights at GM may request the Directors to call a GM and the Directors must call a meeting within 21 days after the date on which they become subject to the requirement. The GM must then be held on a date not more than 28 days after the date of the notice convening the meeting.

If the Directors fail to call the meeting in accordance with the Companies Ordinance, the shareholders who requested to convene the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a meeting at the expenses of the Company. The meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a meeting.

SHAREHOLDERS' RIGHTS (CONTINUED)

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS

According to the Companies Ordinance, at least 50 shareholders or shareholders representing at least 2.5% of the total voting right may request the Company to circulate to the shareholders entitled to receive notice of a general meeting a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution or other business to be dealt with at that general meeting.

Such request must be in writing, authenticated by the relevant shareholders and received by the Company at least 6 weeks before the relevant annual general meeting or 7 days before the general meeting to which it relates.

ENQUIRIES TO THE BOARD

The Board always welcomes shareholders' views and input. Shareholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary of the Company and his contact details are as follows:

Company Secretary
China Overseas Grand Oceans Group Limited
Suites 701–702, 7/F., Three Pacific Place,
1 Queen's Road East, Hong Kong
Email: companysecretary81@cohl.com
Tel. No.: (852) 2988 0623
Fax No.: (852) 2988 0606

ATTENDANCE RECORDS

Details of Directors' attendance at the Board meetings, meetings of Board committees and annual general meeting held in 2018 are set out in the following table:

Name of Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meetings	Executive Committee Meetings	Annual General Meeting
Mr. Yan Jianguo	5/5	N/A	N/A	2/2	3/16	1/1
Mr. Yung Kwok Kee, Billy	5/5	N/A	1/1	N/A	N/A	1/1
Mr. Zhang Guiqing	5/5	N/A	1/1	N/A	16/16	1/1
Mr. Wang Man Kwan, Paul	5/5	N/A	N/A	N/A	14/16	1/1
Mr. Yang Lin	5/5	N/A	N/A	N/A	14/16	1/1
Dr. Chung Shui Ming, Timpson	5/5	4/4	1/1	2/2	N/A	1/1
Mr. Lam Kin Fung, Jeffrey	5/5	4/4	1/1	2/2	N/A	1/1
Mr. Lo Yiu Ching, Dantes	4/5	3/4	1/1	2/2	N/A	1/1

Note: The attendance figure represents actual attendance/the number of meetings a Director was entitled to attend.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, fees for audit services and non-audit services payable to the auditor of the Company amounted to approximately HK$2,940,000 and HK$350,000 respectively. The non-audit services payable included professional services rendered in connection with the Group's issuance of 2021 Guaranteed Notes of HK$300,000.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year ended 31 December 2018.

Directors and Organization

NON-EXECUTIVE DIRECTORS:

MR. YAN JIANGUO, *Chairman*

Aged 52, graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989, and obtained an MBA degree from Guanghua School of Management in Peking University in 2000 and a PhD degree in Marketing from Wuhan University in 2017. Mr. Yan joined CSCEC in 1989 and had been seconded to COLI twice. During the year 1990 to 1992, he had been working for the Shenzhen branch of China Overseas Property Group and had held a number of positions, including site engineer and department head. He was assigned to COLI again from 2001 to 2011 and had been assistant general manager of Guangzhou branch, deputy general manager of Shanghai branch, general manager of Suzhou branch, general manager of Shanghai branch, vice managing director of China Overseas Property Group and president of Northern China region. Mr. Yan had worked in CSCEC from 2011 to June 2014 and had been director of the general office, general manager of information management department, chief information officer and assistant general manager. Mr. Yan joined Longfor Properties Co. Ltd. (listed on the Stock Exchange, Stock Code: 960) in June 2014 and resigned on 5 December 2016. During the period, he had held a number of positions including executive director and the senior vice president. Mr. Yan then rejoined COLI and was appointed as executive director and chief executive officer on 7 December 2016 and effective from 1 January 2017. Mr. Yan has about 29 years' experience in construction business, real estate investment and management.

In addition to acting as the executive director and chief executive officer of COLI, Mr. Yan is also currently the vice chairman and president of COHL and a director of certain subsidiaries of COHL and COLI. Mr. Yan has been appointed as the chairman of COLI and the chairman and non-executive director of COPH effective from 13 June 2017 and the chairman and non-executive director of CSC effective from 22 March 2019. COHL and COLI are the substantial shareholders of the Company within the meaning of the SFO. Mr. Yan has been appointed as the Chairman and Non-executive Director and a member of the Nomination Committee of the Company with effect from 13 June 2017.

MR. YUNG KWOK KEE, BILLY, *Vice Chairman*

Aged 65, received a Bachelor degree in Electrical Engineering from University of Washington and a Master degree in Industrial Engineering from Stanford University. Mr. Yung has over 30 years of experience in managing manufacturing, retailing, transportation, semi-conductor, computer hardware and software business in US, Hong Kong and China. He has also over 30 years of experience in real-estate investment and development in USA, Canada, Holland, Hong Kong, Taiwan, Macau and China. Mr. Yung resigned as the Group Chairman and Chief Executive of the Company with effect from 10 February 2010 and has been re-designated from Chairman of the Board and Executive Director to Vice Chairman of the Board and Non-executive Director of the Company with effect from 27 February 2010. He is now the Vice Chairman, Non-executive Director and member of the Remuneration Committee of the Company. Mr. Yung is currently the permanent honorary president of Friends of Hong Kong Association Ltd., the honorary president of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the honorary citizen of the City of Guangzhou and the honorary citizen of the City of Foshan.

EXECUTIVE DIRECTORS:

MR. ZHANG GUIQING, *Chief Executive Officer*

Aged 46, holds a bachelor degree from the Shenyang Jianzhu University and a master degree from the Harbin Institute of Technology. He joined a subsidiary of COHL as engineer in 1995 and since then, he worked in various business units within COHL and COLI, such as, development management department, marketing and planning department, general manager of Suzhou, Shenzhen and Northern District regional companies. He has 23 years' experience in property development and corporate management. Mr. Zhang has been appointed as the Chief Executive Officer and Executive Director of the Company with effect from December 2014. He has also been appointed as a member of the Nomination Committee and the Remuneration Committee of the Company with effect from 17 March 2016 and ceased to be a member of the Nomination Committee from 13 June 2017.

MR. WANG MAN KWAN, PAUL, *Chief Financial Officer*

Aged 62, graduated from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Wang is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is also an associate member of Certified General Accountants of Canada, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Wang joined COLI as general manager, Finance & Treasury Department in December 2004. Between February 2005 and August 2009, he was appointed as executive director and deputy financial controller and qualified accountant of COLI. Prior to joining COLI, Mr. Wang was director and chief financial officer of Guangdong Investment Limited. Mr. Wang has extensive experience in corporate restructuring and corporate financial services. His previous experience includes working in the Hong Kong Inland Revenue Department, Jardine Matheson (Company Secretary's Department and JMS Finance), Deloitte (Hong Kong and Toronto offices) and as a director and chief operating officer of a South East Asian Group in charge of operations in China, Philippines, Indonesia, Singapore, Dubai and Germany. Mr. Wang was appointed an Executive Director and Chief Financial Officer of the Company in July 2011.

MR. YANG LIN, *Vice President*

Aged 45, graduated from the Peking University with a Master of Business Administration. He joined a subsidiary of COHL in 1995 and since 2006, he served in different positions, such as, the deputy general manager and general manager of the marketing and planning department of China Overseas Property Group Co., Ltd. and the general manager of China Overseas Xingye (Xi'an) Limited*. Mr. Yang has been appointed as Assistant President of the Company since March 2015 and has 23 years' experience in property development business. He was appointed an Executive Director and Vice President of the Company with effect from 21 March 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS:

DR. CHUNG SHUI MING, TIMPSON *GBS, JP*

Aged 67, holds a bachelor of science degree from the University of Hong Kong, a master's degree of business administration from the Chinese University of Hong Kong and a Doctor of Social Sciences honoris causa from the City University of Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants. Dr. Chung is currently a member of the National Committee of the 13th Chinese People's Political Consultative Conference. Besides, Dr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited, Miramar Hotel and Investment Company, Limited, China Everbright Limited, China Construction Bank Corporation, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited, China Railway Group Limited and Orient Overseas (International) Limited (all listed on the Stock Exchange). From 8 January 2018, Dr. Chung ceased to be an independent director of CSCECL (listed on the Shanghai Stock Exchange and is the substantial shareholder of the Company within the meaning of the SFO). From October 2004 to November 2008, Dr. Chung served as an independent non-executive director of China Netcom Group Corporation (Hong Kong) Limited. Formerly, Dr. Chung was an independent director of China Everbright Bank Company Limited, an independent non-executive director of Henderson Land Development Company Limited and Nine Dragons Paper (Holdings) Limited, a director of Hantec Investment Holdings Limited, the chairman of China Business of Jardine Fleming Holdings Limited, the deputy chief executive officer of BOC International Limited, the independent non-executive director of Tai Shing International (Holdings) Limited, and the chairman of the Council of the City University of Hong Kong. He was also the chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the vice chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee and a vice-chairman, director and deputy general manager of Nanyang Commercial Bank Limited and the chief executive officer of the Hong Kong Special Administrative Region Government Land Fund Trust. In addition, Dr. Chung has been appointed as Pro-Chancellor of the City University of Hong Kong with effect from August 2016. Since May 2010, Dr. Chung has been appointed as an Independent Non-executive Director of the Company, the Chairman of the Audit Committee, and members of both the Remuneration Committee and Nomination Committee of the Company.

MR. LAM KIN FUNG, JEFFREY *GBS, JP*

Aged 67, holds a Bachelor's Degree from Tufts University in USA. He has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. He is also a member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Lam also holds a number of other public and community service positions including non-official member of the Executive Council, member of the Legislative Council in Hong Kong, general committee member of Hong Kong General Chamber of Commerce, chairman of Independent Commission Against Corruption (ICAC) Complaints Committee and a director of Heifer International — Hong Kong and Hong Kong Mortgage Corporation Limited (HKMC). In addition, he is an independent non-executive director of CC Land Holdings Limited, Wynn Macau, Limited, Chow Tai Fook Jewellery Group Limited, CWT International Limited (formerly known as HNA Holding Group Co. Limited), i-CABLE Communications Limited and Wing Tai Properties Limited. Formerly, Mr. Lam was an independent non-executive director of Hsin Chong Group Holdings Limited and Bracell Limited. Since May 2010, Mr. Lam has been appointed as an Independent Non-executive Director of the Company, and he is currently the members of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS: (CONTINUED)

MR. LO YIU CHING, DANTES *GBS, JP*

Aged 73, graduated in London in 1970 and further obtained his Master of Science degree in civil engineering from the University of Hong Kong in 1980. He is a fellow of the Institution of Civil Engineers; a fellow of the Institution of Structural Engineers; a fellow of the Hong Kong Institution of Engineers and a member of the China Civil Engineering Society.

Mr. Lo had been engaged both in Hong Kong and overseas in the administration, planning, design and supervision of major capital works projects in civil and structural engineering, including multi-storey buildings, slope works, construction of roads and bridges, reclamations and port works and new town development. In 1970, Mr. Lo started his career with Ove Arup & Partners in London as a project engineer. He joined the Hong Kong Government in 1974 as an engineer and was promoted to director of Civil Engineering Department in 1999 and then director of Highways Department in 2000. In 2002, Mr. Lo was appointed the permanent secretary for the Environment, Transport and Works (Works). He retired from the civil service in 2006. Before his retirement, Mr. Lo was awarded the Gold Bauhinia Star (GBS) in recognition of his loyal and distinguished service to the Government and the Hong Kong Community. In particular, he had made valuable contribution in steering forward major public works projects and in promoting quality improvements in the construction industry.

Mr. Lo is a Justice of the Peace. Mr. Lo had been a part-time senior consultant to the Hospital Authority on capital planning and an advisor to CEO of The Airport Authority Hong Kong. He has been appointed as a distinguished adjunct professor in the Department of Civil Engineering, University of Hong Kong since 2003. Since May 2010, Mr. Lo has been appointed as an Independent Non-executive Director of the Company, members of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He has also been appointed as the Chairman of the Nomination Committee of the Company with effect from 17 March 2016. In addition, Mr. Lo has been appointed as an independent non-executive director of Build King Holdings Limited with effect from 30 November 2018.

SENIOR MANAGEMENT STAFF:

Assisted by head of departments, the businesses and operations of the Group are under the direct responsibilities of the Executive Directors and the Executive Directors are therefore regarded as the senior management staff of the Company.

* *English translation is for identification only.*

Directors' Report

The Board presents the annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

During the current year, the principal activities of the Group are property investment and development, property leasing and investment holdings. Details of the activities of its subsidiaries, associates and joint ventures are set out in notes 50 to 52 to the financial statements respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 6 to 29 of this annual report. These sections form part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 68.

The Board has recommended the payment of final dividend of HK11.2 cents per ordinary share for the year ended 31 December 2018 with a total amount of approximately HK$383,416,000 (2017: HK$102,701,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 188.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 36 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP

Save as disclosed below, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities during the year ended 31 December 2018 and up to the date of this annual report.

DEBENTURES ISSUED

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 2021 Guaranteed Notes. The 2021 Guaranteed Notes are guaranteed by the Company irrevocably and unconditionally and listed on the Stock Exchange.

The net proceeds from the issuance of the 2021 Guaranteed Notes, after deducting the fees and other expenses in connection with the issuance, 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.

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 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 of the Share 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 Share is approximately HK$4.04.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP (CONTINUED)

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 (the "Net Proceeds").

As disclosed in the announcement of the Company dated 29 October 2018, the Board has resolved to change the use of approximately a sum of HK$600.0 million of the Net Proceeds, which originally intended to be applied for business development, and apply it for bank loan repayment.

The details of the original and revised allocations and the utilisations of Net Proceeds are as follows:

	Original allocation of Net Proceeds *HK$ million*	Utilised amount as at 29 October 2018 (before revision) *HK$ million*	Revised allocation of Net Proceeds *HK$ million*	Utilised amount as at 31 December 2018 *HK$ million*	Unutilised amount as at 31 December 2018 *HK$ million*
Repayments of existing indebtedness and outstanding liabilities	3,249.4	3,249.4	3,849.4	3,849.4	–
Business development	921.8	321.8	321.8	321.8	–
General working capital	436.5	436.5	436.5	436.5	–
	4,607.7	4,007.7	4,607.7	4,607.7	–

For details of the Rights Issue and the change in use of proceeds, please refer to the prospectus and announcements of the Company dated 12 January 2018, 2 February 2018 and 29 October 2018 respectively.

DEBENTURE REDEEMED

China Overseas Grand Oceans Finance II (Cayman) Limited, a wholly-owned subsidiary of the Company, redeemed the entire outstanding principal amount of US$400,000,000 of the 2019 Guaranteed Notes on the maturity date (i.e., 23 January 2019). The 2019 Guaranteed Notes were listed on the Stock Exchange prior to redemption.

Details of the above are set out in note 34 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 37 to the financial statements respectively.

DISTRIBUTABLE RESERVE

The reserve of the Company available for distribution to shareholders at 31 December 2018 was HK$2,427,792,000 (2017: HK$1,153,032,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

MAJOR PROPERTIES

Particulars of the major properties and property interests of the Group as at 31 December 2018 are set out on pages 189 to 198.

DIRECTORS OF THE COMPANY

The Directors of the Company during the year and up to date of this report are as follows:

NON-EXECUTIVE DIRECTORS

Mr. Yan Jianguo *(Chairman of the Board)*
Mr. Yung Kwok Kee, Billy *(Vice Chairman of the Board)*

EXECUTIVE DIRECTORS

Mr. Zhang Guiqing *(Chief Executive Officer)*
Mr. Wang Man Kwan, Paul *(Chief Financial Officer)*
Mr. Yang Lin *(Vice President)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The dates of appointment of the above Directors are set out in the section headed "Directors and Organization" of this annual report.

In accordance with article 107 of the Company's articles of association, Mr. Yung Kwok Kee, Billy, Mr. Yang Lin and Mr. Lo Yiu Ching, Dantes shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

Each Director (including Non-executive Directors) is subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS OF SUBSIDIARIES

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.cogogl.com.hk under the "Corporate Governance" section.

DIRECTORS AND ORGANIZATION

Brief biographical details of Directors and senior management as at the date of this report are set out on pages 39 to 42.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

There is no transaction, arrangement or contract of significance subsisting during or at the end of the financial year 2018 in which the Directors or an entity connected with him is or was materially interested, either directly or indirectly.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following Director had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Company:

Mr. Yan Jianguo, the Chairman of the Board and the Non-executive Director of the Company, is also the vice chairman and president of COHL, the chairman, chief executive officer and executive director of COLI, the chairman and non-executive director of COPH and CSC. COHL, COLI, COPH and CSC are engaged in construction, property development, property management and related businesses.

The entities in which the above Director has declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders. Further, the Board includes three Independent Non-executive Directors and one Non-executive Director (other than Mr. Yan Jianguo) whose views carry significant weight in the Board's decisions. The Audit Committee of the Company, which consists of three Independent Non-executive Directors, meets regularly to assist the Board in reviewing the financial performance, internal control, risk management and compliance systems of the Company and its subsidiaries. The Company is, therefore, capable of carrying on its businesses independently of, and at arm's length from, the businesses in which the Director has declared interests.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company and subject to the provisions of the Companies Ordinance, each Director, former Director, other officer or other former officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, provided that such articles shall only have effect in so far as its provisions are not avoided by the Companies Ordinance. The Company has also maintained appropriate directors and officers liability insurance coverage for the Directors and officers of the Group during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES BY DIRECTORS

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no other equity-linked agreement was entered by the Group, or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2018, the Directors and the chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of 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 31 December 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.

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 31 December 2018, any interests in, or had been granted any rights to subscribe for the shares and options and debentures of the Company or 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 31 December 2018, the following persons (other than Directors or the chief executives of the Company) had interests 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)*
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%

Notes:

(1) The percentage is based on the total number of shares of the Company in issue as at 31 December 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 COLI which in turn is a non-wholly owned subsidiary of COHL. COHL is a subsidiary of 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 Directors or the 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 31 December 2018.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP

(A) CONNECTED TRANSACTION

Co-operation Agreement between 中海宏洋(深圳)投資有限公司 (China Overseas Grand Oceans (Shenzhen) Investment Limited*) ("CGOSIL"), 中建國際投資（中國）有限公司 (China State Construction International Investments (China) Limited*) ("CSCIICL") and 包頭新都市建設投資運營管理有限公司 (Baotou Xindou City Construction Investment and Operation Management Company Limited*) ("BXCCIOM")

包頭市中海宏洋地產有限公司(Baotou City China Grand Oceans Properties Company Limited*) ("Baotou JV") was a joint venture established by CGOSIL (a subsidiary of the Company), CSCIICL (a subsidiary of CSC) and BXCCIOM on a 60:20:20 basis. Baotou JV has an initial registered capital of RMB10,000,000 contributed by the parties in proportion to their respective equity interests.

On 27 March 2018, CGOSIL, CSCIICL and BXCCIOM entered into a co-operation agreement to increase the capital contributions into the Baotou JV to RMB660,000,000. The capital contributions will be contributed by the parties in proportion to their equity interests for the purpose of financing the development of a piece of land in Xindoushi District, Baotou City, Inner Mongolia.

COHL is the controlling shareholder of both the Company and CSC. Hence, each of the Company and CSC is a connected person of each other under Chapter 14A of the Listing Rules. Accordingly, the entering into the co-operation agreement and the transactions contemplated thereunder constitute a connected transaction for each of the Company and CSC.

(B) CONTINUING CONNECTED TRANSACTIONS

(1) Renewal Trademark Licence Agreement with COLI

As disclosed in the Company's announcements of 6 April 2011 and 28 March 2014, the Company and COLI entered into the trademark licence agreements, pursuant to which COLI granted the Company a non-exclusive licence to use the trademark "中海地產" in the PRC. The royalty payable pursuant to the trademark licence agreement dated 28 March 2014 was one per cent of audited annual turnover of the Group provided that the royalty payable for each of the 12-month period shall not exceed HK$250 million for a term commencing from 1 April 2014 and ending on 31 March 2017.

Upon expiry of the trademark licence agreement dated 28 March 2014, the Company and COLI entered into the Renewal Trademark Licence Agreement for a term commencing from 1 April 2017 and ending on 31 March 2020. The royalty payable in arrears by the Company under the Renewal Trademark Licence Agreement is one per cent of the Group's audited annual consolidated turnover for each financial year ending on 31 December 2017, 2018 and 2019 respectively provided that the royalty payable for each of the 12-month period between 1 April 2017 and 31 March 2020 shall not exceed HK$200 million.

COLI is a controlling shareholder of the Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into the Renewal Trademark Licence Agreement constitutes continuing connected transactions of the Company.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(2) Renewal Property Lease Agreements with 北京仁和燕都房地產開發有限公司 (Beijing Ren He Yan Du Real Estate Development Co., Ltd.*) and 北京中信新城逸海房地產開發有限公司 (Beijing Zhong Xin Xin Cheng Yi Hai Real Estate Development Co., Ltd.*) (collectively, referred to as the "Tenants")

As disclosed in the Company's announcement of 1 August 2014, 北京中京藝苑置業有限公司 (Beijing Zhong Jing Yi Yuan Zhi Ye Company Limited*) (the "Landlord"), a subsidiary of the Company, entered into the property lease agreements with the subsidiaries of COLI to lease the following premises for a term of three years commencing from 1 August 2014 and ending on 31 July 2017, the rent payable for each of the 12-month period is RMB14.005 million.

Upon expiry of the property lease agreements, the Landlord entered into the Renewal Property Lease Agreements with the Tenants respectively for a term of three years commencing from 1 August 2017 and ending on 31 July 2020, the rent payable for each of the 12-month period is RMB15.405 million and the principal terms of the Renewal Property Lease Agreements are set out below:

Address of premises	Area of premises	Use	Annual Rent and Cap	Lease Term
22nd Floor, China Overseas International Center, No. 28 Pinganlixi Avenue, Xicheng District, Beijing	2,355.22 sq.m.	Office	RMB10.260 million or RMB854,945 per month. The rent is payable quarterly.	1 August 2017 to 31 July 2020
Units 01, 02, 03 & 09, 23rd Floor, China Overseas International Center, No. 28 Pinganlixi Avenue, Xicheng District, Beijing	1,181.2 sq.m.	Office	RMB5.145 million or RMB428,776 per month. The rent is payable quarterly.	1 August 2017 to 31 July 2020
			Annual Cap: RMB15.405 million	

Since the Tenants are subsidiaries of COLI, a controlling shareholder of the Company, they are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into the Renewal Property Lease Agreements constitutes continuing connected transactions of the Company.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(3) Continuing Connected Transactions with COPH

Framework Agreement dated 1 June 2015

Before the equity transfer mentioned in the announcement dated 18 May 2015, 中海宏洋物業管理有限公司 (China Overseas Grand Oceans Property Management Limited*) ("COGOPM") and its subsidiaries were engaged to provide property management services to various property developments owned by the Group in the PRC. After completion of the equity transfer, COGOPM has become a subsidiary of COLI and subsequently a subsidiary of COHL. Since COHL is a controlling shareholder of the Company, its subsidiary, COGOPM is a connected person of the Company and hence, the existing property management agreements at that time became continuing connected transactions of the Company.

The principal terms of the existing property management agreements are as follows:

Parties: (1) Members of the Group; and

(2) COGOPM or its subsidiaries.

Terms: Fixed term ranging from 2 to 7 years

Subject matter: provision of various property management services

Fee payables: Depending on the local regulations, practices and terms of the property management agreements, the fee shall be paid monthly, quarterly or semi-annually with reference to gross floor area under management, estimated costs and expenses for rendering the services, and the pricing for comparable properties.

In addition to the property management transactions under the abovementioned agreements, the Company entered into Framework Agreement with COPH on 1 June 2015 (the "Framework Agreement") with respect to various property management services to be provided by COPH or its subsidiaries from time to time for the term commencing from 1 June 2015 to 31 May 2018.

The annual fees payable for property management services provided pursuant to the Framework Agreement are capped as follows:

For the period from 1 June 2015 to 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2017	For the period from 1 January 2018 to 31 May 2018
RMB30 million	RMB50 million	RMB60 million	RMB35 million

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(3) Continuing Connected Transactions with COPH (Continued)

Prevailing Projects Framework Agreement

On 20 October 2017, the Company and COPH entered into the Prevailing Projects Framework Agreement to increase the annual caps and expand the scope of services under the Framework Agreement and renew the transactions thereunder. The principal terms of the agreement are as follows:

Parties	Commencement Date	Period	Annual Cap
The Company and COPH	1 January 2018	1 January 2018 to 31 December 2018	HK$115,600,000
		1 January 2019 to 31 December 2019	HK$96,500,000
		1 January 2020 to 30 June 2020	HK$57,900,000

Pursuant to the Prevailing Projects Framework Agreement, any member of COPH Group may provide the property management and engineering services to the Group, subject to the above annual caps. The Group will go through a competitive tender process to select and appoint a service provider for the provision of property management and engineering services to the Group. Further details of the standard and systematic tender process of the Group are set out in the paragraph headed "Pricing Basis" in the announcement dated 20 October 2017.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(3) Continuing Connected Transactions with COPH (Continued)

New Projects Framework Agreement

On 20 October 2017, the Company and COPH entered into the New Projects Framework Agreement in relation to the property management and engineering services to be provided by COPH Group to the Group for certain property development projects in emerging third tier cities in the PRC acquired by the Group from COLI Group in 2016, which were not managed by any member of COPH Group at the date of entering the agreement. The principal terms of the agreement are as follows:

Parties	Commencement Date	Period	Annual Cap
The Company and COPH	1 January 2018	1 January 2018 to 31 December 2018	HK$47,800,000
		1 January 2019 to 31 December 2019	HK$45,900,000
		1 January 2020 to 30 June 2020	HK$25,800,000

Pursuant to the New Projects Framework Agreement, any member of COPH Group may provide the property management and engineering services to the Group, subject to the above annual caps. The Group will go through a competitive tender process to select and appoint a service provider for the provision of property management and engineering services to the Group. Further details of the standard and systematic tender process of the Group are set out in the paragraph headed "Pricing Basis" in the announcement dated 20 October 2017.

Since COHL is the controlling shareholder of both the Company and COPH, COPH is hence a connected person of the Company under Chapter 14A of the Listing Rules and transactions under the Prevailing Projects Framework Agreement and the New Projects Framework Agreement constitute continuing connected transactions of the Company.

The Group has followed the policies and guidelines set out in our announcement dated 20 October 2017 when determining the prices and terms of the property management services provided pursuant to the Prevailing Projects Framework Agreement and the New Projects Framework Agreement during the year 2018.

(4) Framework Agreement with CSC

On 24 March 2016, the Company and CSC entered into the Framework Agreement, pursuant to which the Group agreed to engage CSC and its non-listed subsidiaries from time to time ("CSC Group") to provide the construction supervision and management service for the property development projects of the Group in the PRC for a term of three years commencing from 1 April 2016 and ending on 31 March 2019.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(4) Framework Agreement with CSC (Continued)

The management fee with respect to the construction supervision and management service will be charged on a "cost plus" basis, which will be determined based on the total staff cost incurred by the CSC Group with respect to the provision of the construction supervision and management service plus a margin of 18%, which is capped as follows:

For the period from 1 April 2016 to 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018	For the period from 1 January 2019 to 31 March 2019
RMB110 million	RMB136 million	RMB191 million	RMB65 million

Since COHL is the controlling shareholder of both the Company and CSC, hence, CSC is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the Framework Agreement constitutes a continuing connected transaction of the Company.

(5) Framework Agreement with Far East Global Group Limited ("FEG")

FEG acquired the entire equity interests in 中海監理有限公司 (China Overseas Supervision Limited*) from a wholly-owned subsidiary of CSC (the "Acquisition"), the completion of which took place on 26 June 2018. As mentioned in the announcement of FEG dated 14 March 2018, prior to the completion of the Acquisition, China Overseas Supervision Limited entered into certain transactions with the Group to provide the construction supervision services in respect of the prevailing projects which would subsist after the completion of the Acquisition (i.e., 26 June 2018). Following the completion of the Acquisition, China Overseas Supervision Limited has become a subsidiary of FEG and these subsisting transactions have become connected transactions for both the Company and FEG.

On 26 June 2018, there are 17 subsisting contracts in respect of the prevailing projects with the outstanding aggregate amount of not more than HK$72 million and payable by the Group to China Overseas Supervision Limited. The principal terms of the subsisting contracts in respect of the prevailing projects are set out as follows:

Parties:	(i) China Overseas Supervision Limited (as a service provider); and (ii) Members of the Group (as owner of the relevant property development).
Scope of Services:	Provision of construction supervision services by China Overseas Supervision Limited to members of the Group for the property development projects of the Group in the PRC, which include supervision of quality, progress and measurements, contracts management, safety, information management and relationship coordination work.
Payment term:	All outstanding amount is expected to be settled upon completion of final accounts of the prevailing projects by the Company.

In addition, it is expected that the Group may continue to engage China Overseas Supervision Limited, which is now a member of FEG Group, for the provision of construction supervision services for its property development projects in the PRC.

CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

(B) CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

(5) Framework Agreement with Far East Global Group Limited ("FEG") (Continued)

On 26 June 2018, the Company and FEG entered into the Framework Agreement, pursuant to which the Group may engage the members of FEG Group to provide the project management, supervision and consultancy services for the Group's property development projects in the PRC from time to time for the period of three years commencing from 1 July 2018. The maximum total contract sum that may be awarded to FEG Group is subject to the following caps:

For the period from 1 July 2018 to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January 2021 to 30 June 2021
HK$30 million	HK$60 million	HK$60 million	HK$30 million

The Group will go through a competitive tender process to select and appoint a service provider for the provision of the above services to the Group. Further details of the standard and systematic tender process of the Group are set out in the paragraph headed "Pricing Basis" in the announcement dated 26 June 2018. In the event that the expected contract amount involved is relatively small or no tender is available, and it will not be appropriate for the Group to go through the tendering procedures, the Group will seek quotations from at least three different service providers.

COHL is a controlling shareholder of the Company, CSC and FEG. CSC is the indirect holding company of FEG. Hence, FEG is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions under the Framework Agreement constitute continuing connected transactions of the Company.

* *English translation is for identification only.*

REVIEW BY AUDIT COMMITTEE MEMBERS AND AUDITOR

The Independent Non-executive Directors have reviewed the above continuing connected transactions during the year and confirmed that the transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms and no less favourable than those available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions for the year ended 31 December 2018 disclosed by the Group in paragraphs (B)(1) to B(5) of the section "Connected Transactions Entered Into By The Group" above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

During the year, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

INTEREST IN CONTRACTS OF SIGNIFICANCE

The transactions set out in paragraphs (A), (B)(1), (B)(3) and (B)(4) of the section "Connected Transactions Entered Into By The Group" above are considered as contracts of significance under paragraph 16 of Appendix 16 of the Listing Rules.

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 the 2019 Guaranteed Notes. Under the trust deed, the holders of the 2019 Guaranteed Notes shall have the right, at their option, to require the Company to redeem all, or some only, of their 2019 Guaranteed 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. Following the redemption at maturity of 2019 Guaranteed Notes on 23 January 2019, the above-mentioned specific performance of COLI was no longer applicable to the Company.

The Company entered into the facility agreements/letters subsisting during or at the end the financial year 2018 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

(4) Date: 31 December 2018
Amount: Loan facility up to HK$1 billion
Term: 60 months commencing from the date of the first drawdown

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES (CONTINUED)

The above facility agreements/letters 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 shall become immediately due and payable.

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

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2018, sales to the Group's five largest customers together represented less than 30% of the Group's total turnover and purchases from the Group's five largest suppliers together represented less than 30% of the Group's total purchases.

DESCRIPTIONS OF MAJOR RISKS AND UNCERTAINTIES FACED BY THE GROUP

OCCUPATIONAL SAFETY

The Group is fully aware of the need for stringent safety management in the construction phases of property development. Work-related accidents or occupational diseases may reduce productivity and stall project timeline. The lack of comprehensive occupational safety protection for employees can affect the development and retaining of human resources. The Group has established the Construction Safety Management System to strengthen the safety management of the construction sites, with standardised safety procedures and various safety measures to improve the working environment and ensure work safety of employees.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Considering environmental risks brought by climate change, the Group has included environmental protection in its corporate strategy. The Group formulated and implemented the Environmental Policy to require all operation units in all sites of operation to incorporate the policy into their workflow in order to prevent and reduce risks and impact on the environment. The Group shows its commitment in the Environmental Policy to develop green strategy in real estate projects by using green building practices as one of the approaches. Amongst the Group's new property development projects, 62.5% have obtained green building design certifications, while 90% have reached green building design standards.

COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS THAT HAVE MAJOR IMPACTS ON THE GROUP

The Group's major business is property investment and development in PRC, which is subject to stringent regulations imposed by the relevant local authorities. To ensure compliance with environmental laws and regulations that have major impacts on the Group, the Group consistently monitors the operation workflow and manages the compliance of contractors.

Project phase	Environmental laws and regulations that have major impacts on the Group	Compliance measures
Planning	• Environmental Impact Assessment Law of the People's Republic of China • Administrative Regulations on Environmental Protection for Construction Projects	Environmental impact assessment was undertaken in all new property development projects of the Group to ensure comprehensive review was carried out before they were constructed to prevent adverse environmental impact of the planning and construction project. The Group compiled environmental impact assessment report, reporting spreadsheets, or registers according to the degree of environmental impact of the new projects. These documents are submitted to the supervisory units of environmental protection in the local government for approval before construction commences.
Construction	• Environmental Protection Law of the People's Republic of China • Administrative Regulations on Environmental Protection for Construction Projects • Interim Methods for Endorsement of Environmental Protection for Completed Construction Projects • Technical Guidelines of Environmental Protection Inspections for Completed Construction Projects — Pollution Impacts Category • Water Pollution Prevention and Control Law of the People's Republic of China • Prevention and Control of Noise Pollution Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste	The Group has appointed third-party supervisory units to provide supervision services for its property development projects in mainland China. The Group has obtained environmental protection acceptance and inspection approvals for all projects.

In 2018, there were no cases of non-compliance with environmental laws and regulations that have major impacts on the Group.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group strives to maintain communication with key internal and external stakeholders through multiple channels. Key stakeholders of the Group include employees, customers, suppliers and contractors.

EMPLOYEES

There is a total of 2,156 employees in the Group, located across multiple offices in various cities. To provide a safe, healthy and ideal working environment, the Group:

- Implemented a series of human resources management policies to ensure employees receive fair and competitive remuneration and offer benefits in addition to statutory requirements to attract and retain talents. This year, the Group commissioned a third-party organisation to conduct an employee engagement survey[1] by measuring six engagement drivers (including employee establishments, opportunities, work, life, quality policy and execution, and comprehensive remuneration). The overall score was 88%, which was higher than the market average score.

- Formulated the Construction Safety Management System and required regional offices to establish their own project safety management system accordingly. The Group is implementing a set of Employee Health Management trial measures to help employee manage their physical and mental health. A supplementary employee health insurance scheme was introduced this year.

- Organised different types of training activities to maintain and strengthen the core competence of the Group. A total of 50,739 hours of training was provided this year.

1 The survey measures employee engagement according to three key behaviours, including: if employees are happy to promote the Company; if they intend to stay in the Company; and if they are motivated to strive to help the organisation succeed.

CUSTOMERS

The key customers of the Group are building users. The Group focuses its business on the emerging cities of mainland China. To reduce the risks of centralised operations and customer concentration, the Group continuously develops various types of mid-range to high-end properties in different regions to meet the needs of different types of customers. To better understand the views of customers and boost customer satisfaction, the Group has been conducting customer satisfaction surveys on a regular basis. In addition, to effectively manage the risks associated with different stages of project development, the Group has formulated the Whole-Process Customer Risk Management Measures and the Tendering Management Measures assigned the task of customer risk management to the customer services department of regional offices.

SUPPLIERS AND CONTRACTORS

It is vital to maintain steady relationship between the Group and its suppliers and contractors for the long-term success of its business. The Group adopts a mutually-engaging approach to maintain constant communication with business partners in each part of the operation.

Suppliers

This year, the Group established a supply and sales network with 5,126 suppliers located across different cities. Most of them are construction suppliers that have partnered with the Group ranging between one to seven years. The main suppliers have granted credit terms of 28 to 42 days to the Group.

RELATIONSHIPS WITH KEY STAKEHOLDERS (CONTINUED)

SUPPLIERS AND CONTRACTORS (CONTINUED)

Contractors

This year, the Group outsourced the construction of property development projects to contractors. Most contractors have partnered with the Group for one to seven years.

To ensure that our business is aligned with sustainability principles, the Group has properly managed the supply chain and minimised the risks of over-reliance on key suppliers and contractors. The Group implemented the Tendering Management Measures to select, supervise and assess suppliers and contractors, in order to build a stable supply chain.

For details about the Group's environmental, social and governance performance, please refer to its Environmental, Social and Governance Report to be published by July 2019.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being no less than 25% of the total number of shares of the Company in issue as required under the Listing Rules.

DONATIONS

During the year, the Group did not make any charitable and other donations (2017: nil).

CHANGES IN DIRECTORS' INFORMATION

Subsequent to publication of the interim report of the Company for six months ended 30 June 2018, the changes in Directors' information are set out below:

- The annual director's fee and other benefits of Mr. Yung Kwok Kee, Billy was adjusted to HK$400,000 per annum, with effect from 1 January 2019.

- The annual salary and retirement benefit of Mr. Wang Man Kwan, Paul, excluding discretionary bonus, was adjusted to HK$3,086,100 per annum, with effect from 1 February 2019.

- The annual director's fee and other benefits of Dr. Chung Shui Ming, Timpson was adjusted to HK$400,000 per annum, with effect from 1 January 2019.

- The annual director's fee and other benefits of Mr. Lam Kin Fung, Jeffrey was adjusted to HK$400,000 per annum, with effect from 1 January 2019.

- The annual director's fee and other benefits of Mr. Lo Yiu Ching, Dantes was adjusted to HK$400,000 per annum, with effect from 1 January 2019. He was appointed an independent non-executive director of Build King Holdings Limited and ceased to be an advisor to CEO of The Airport Authority Hong Kong.

Save for the above changes in Directors' information, there is no other information that is required to be disclosed pursuant to Rules 13.51B(1) of the Listing Rules.

The updated biography details of Directors are set out in the section headed "Directors and Organization" in this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by BDO Limited who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Yan Jianguo
Chairman and Non-executive Director

Hong Kong, 20 March 2019

Independent Auditor's Report

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To the members of China Overseas Grand Oceans Group Limited
中國海外宏洋集團有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Overseas Grand Oceans Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 68 to pages 187, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Determining net realisable value of inventories of properties

Refer to notes 4.1(b) and 22 in the consolidated financial statements

The carrying value of the Group's inventories of properties as at 31 December 2018 was HK$67,682,662,000.

Inventories of properties are stated at the lower of cost and net realisable value. In assessing net realisable value, management has to determine the selling prices of inventories of properties which is based on management's judgment and expectation of property market in Mainland China. Future selling prices could fluctuate significantly subject to factors including government measures on controlling property market and policies such as urbanization policy and monetary policy. In addition, due to the unique nature of individual properties, estimation of selling prices is highly subjective which requires management's judgment on customer preferences.

We have identified the determination of net realisable value of inventories of properties as key audit matter due to considerable amount of estimation and judgment applied by the management, and difficulty in reliably gauging the impact arising from government's measures and policies which have direct impact on the property market in Mainland China and are prevailing at year end.

Our procedures in relation to management's assessment of the net realisable value of the inventories of properties mainly included:

— Assessing the reasonableness of management's estimates of net realisable value based on our knowledge of the business and industry, taking into account recent developments in the property market in Mainland China as supported by recent sales transactions.

— Checking the accuracy and relevance of market data such as market prices of comparable properties provided by management.

— Independently assessing management's judgment in estimating the impact of those government measures and policies on the selling prices of properties.

— Assessing whether there is evidence of management bias on determining net realisable value by considering the consistency of judgment made by the management year on year through discussion with the management to understand their rationale.

— Challenging the estimations and assumptions used by the management by assessing the reliability of management's past estimates.

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties

Refer to notes 2.1, 3.17A(i), 4.2(a) and 5 in the consolidated financial statements

The Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") on 1 January 2018 and the key changes arising from HKFRS 15 are that revenue from sales of properties is recognized when control of the property unit is transferred to the customer.

Revenue from sales of properties is recognized over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has enforceable right to payment for performance completed to date; otherwise, revenue from sales of properties is recognized at a point in time when the customer obtains control of the completed property. For the year ended 31 December 2018, the Group recognized revenue from sales of properties amounting to HK$25,274,071,000, of which HK$4,255,652,000 was recognized over time.

The Group is contractually restricted from changing or substituting the property unit or redirecting the property unit for another use based on the terms of the sales contract and therefore the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customer for performance completed to date depends on the terms of the sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgment. Management uses judgment, with reference to a legal advice, to classify the sales contracts into those with enforceable right to repayment and those without the right.

When the properties have no alternative use to the Group and the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue from sales of properties over time using input method, which is determined with reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The Group estimates the development cost of each project based on the development plan as well as contractor fee and construction material price lists, taking into account economic factors. The Group allocates the development cost of the property project to each property unit based on types of properties, gross and saleable floor area and other relevant factors.

We have identified the recognition of revenue from sales of properties as key audit matter due to significant judgment applied by the management in assessing whether the Group has the enforceable right to payment in the sales contracts with revenue being recognized over time. In addition, significant judgment and estimations are required in determining the estimated development costs and assessing the progress towards complete satisfaction of the performance obligation at the end of the reporting period.

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties (Continued)

Our procedures in relation to management's assessment of whether the Group has an enforceable right to payment in the sales contracts mainly included:

— Obtaining an understanding regarding management's assessment in identifying sales contracts with or without the enforceable right to payment and evaluating the appropriateness of management's assessment;

— Reviewing the terms of sales contracts, on a sample basis, to assess if the Group has the enforceable right to payment based on the contract terms;

— Reviewing the legal advice provided by the Group's legal advisor, including the legal advisor's interpretation of the applicable laws and the implication on the assessment of the enforceability of the right to payment; and

— Assessing the competency, experience and objectivity of the legal advisor engaged by the Group.

Our procedures in relation to management's estimates of the total development costs of the property projects and the progress towards complete satisfaction of the performance obligation mainly included:

— Understanding the procedures and relevant controls of the Group in preparing and updating the cost budget for property projects and recording contract costs incurred;

— Comparing the budgeted cost to budget approved by management;

— Testing the budgeted cost, on a sample basis, to respective contracts and underlying supporting documents;

— Testing contract costs incurred to date and estimated total costs, on a sample basis, to underlying supporting documents and the reports from external supervisor, where applicable;

— Assessing the reasonableness of the basis of cost allocation;

— Assessing the reliability of cost budgets by comparing actual development costs against budgeted costs of completed property; and

— Checking the cost allocation, the calculation of progress towards complete satisfaction of the performance obligation of the property unit and the amount of revenue from sales of properties under "over time" basis.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Lam Hung Yun, Andrew
Practising Certificate no. P04092

Hong Kong, 20 March 2019

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	25,571,306	20,277,831
Cost of sales and services provided		(18,133,573)	(16,209,323)
Gross profit		7,437,733	4,068,508
Other income	7	437,757	198,629
Distribution and selling expenses		(841,138)	(675,762)
Administrative expenses		(722,233)	(610,130)
Other operating expenses		(160,334)	(7,704)
Other gains or losses			
Fair value gain on investment properties	14(b)	–	191,830
Gain on disposal of investment properties	14(a)	2,173	542
Change in fair value of a derivative financial instrument	21	2,493	1,974
Write-off of available-for-sale financial assets	20	–	(535)
Operating profit		6,156,451	3,167,352
Finance costs	9	(92,266)	(32,500)
Share of results of associates		12,239	57,153
Share of results of joint ventures		266,127	(9,854)
Profit before income tax	8	6,342,551	3,182,151
Income tax expense	10	(3,841,015)	(1,920,417)
Profit for the year		2,501,536	1,261,734
Profit/(Loss) for the year attributable to:			
Owners of the Company		2,427,326	1,271,398
Non-controlling interests		74,210	(9,664)
		2,501,536	1,261,734

	Notes	HK Cents	HK Cents (Restated)
Earnings per share	12		
Basic		73.1	53.6
Diluted		73.1	53.6

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**2,501,536**	1,261,734
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising from translation of overseas operations		
— subsidiaries	**(1,518,807)**	2,070,009
— associates	**3,275**	6,923
— joint ventures	**(31,751)**	27,897
Other comprehensive income for the year, net of tax	**(1,547,283)**	2,104,829
Total comprehensive income for the year	**954,253**	3,366,563
Total comprehensive income attributable to:		
Owners of the Company	**919,894**	3,323,682
Non-controlling interests	**34,359**	42,881
	954,253	3,366,563

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	2,667,576	2,835,203
Property, plant and equipment	15	1,164,785	1,187,437
Prepaid lease rental on land	16	301,287	325,367
Intangible assets	17	3,319	8,117
Interests in associates	18	26,983	135,907
Interests in joint ventures	19	697,439	449,129
Amount due from a joint venture	27	–	305,057
Financial assets at fair value through other comprehensive income	20	1,141	–
Available-for-sale financial assets	20	–	1,196
A derivative financial instrument	21	4,467	1,974
Deferred tax assets	35	184,150	345,958
		5,051,147	5,595,345
Current assets			
Inventories of properties	22	67,682,662	54,414,394
Other inventories	23	1,861	2,060
Contract assets	24	15,986	–
Trade and other receivables, prepayments and deposits	25	10,151,731	9,795,746
Prepaid lease rental on land	16	9,122	9,562
Amount due from an associate	26	68,108	68,094
Amount due from a joint venture	27	291,032	–
Amounts due from non-controlling interests	28	465,936	353,678
Tax prepaid		1,267,506	1,382,614
Restricted cash and deposits	29	7,902,629	7,553,007
Cash and bank balances	29	25,361,554	16,149,246
		113,218,127	89,728,401
Current liabilities			
Trade and other payables	30	10,821,294	9,639,438
Contract liabilities	31	43,282,504	–
Sales deposits received	31	–	30,820,778
Amounts due to associates	26	26,631	176,876
Amounts due to joint ventures	27	1,345,871	1,234,203
Amounts due to non-controlling interests	28	2,333,114	613,424
Amounts due to related companies	32	346,229	4,852,569
Guaranteed notes payable	34	3,211,357	–
Taxation liabilities		3,463,225	2,276,077
Borrowings	33	6,260,146	4,911,049
		71,090,371	54,524,414
Net current assets		42,127,756	35,203,987
Total assets less current liabilities		47,178,903	40,799,332

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings	33	19,271,087	19,300,789
Guaranteed notes payable	34	3,924,376	3,159,180
Amount due to a related company	32	85,627	89,754
Deferred tax liabilities	35	3,619,231	3,786,595
		26,900,321	26,336,318
Net assets		20,278,582	14,463,014
CAPITAL AND RESERVES			
Share capital	36	6,751,682	2,144,018
Other reserves	37	(549,428)	788,971
Retained profits	37	12,862,509	10,641,452
Proposed dividend	11(a)	383,416	102,701
Equity attributable to owners of the Company		19,448,179	13,677,142
Non-controlling interests	38	830,403	785,872
Total equity		20,278,582	14,463,014

On behalf of the directors

Zhang Guiqing
Director

Wang Man Kwan, Paul
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company							
	Share capital HK$'000 (note 36)	Translation reserve* HK$'000 (note 37)	Assets revaluation reserve* HK$'000 (note 37)	Statutory reserve* HK$'000 (note 37)	Retained profits HK$'000 (note 37)	Total HK$'000	Non-controlling interests HK$'000 (note 38)	Total equity HK$'000
At 1 January 2017	2,144,018	(2,425,563)	31,749	890,558	9,781,165	10,421,927	763,373	11,185,300
Profit/(Loss) for the year	–	–	–	–	1,271,398	1,271,398	(9,664)	1,261,734
Exchange differences arising from translation of overseas operations								
— subsidiaries	–	2,017,464	–	–	–	2,017,464	52,545	2,070,009
— associates	–	6,923	–	–	–	6,923	–	6,923
— joint ventures	–	27,897	–	–	–	27,897	–	27,897
Total comprehensive income for the year	–	2,052,284	–	–	1,271,398	3,323,682	42,881	3,366,563
Transfer to PRC statutory reserve	–	–	–	239,943	(239,943)	–	–	–
2017 interim dividend paid (note 11(a))	–	–	–	–	(22,822)	(22,822)	–	(22,822)
2016 final dividend paid (note 11(b))	–	–	–	–	(45,645)	(45,645)	–	(45,645)
Dividends attributable to non-controlling interests (note 28)	–	–	–	–	–	–	(25,015)	(25,015)
Contributions from non-controlling interests	–	–	–	–	–	–	4,633	4,633
Transactions with owners	–	–	–	–	(68,467)	(68,467)	(20,382)	(88,849)
At 31 December 2017	2,144,018	(373,279)	31,749	1,130,501	10,744,153	13,677,142	785,872	14,463,014
At 1 January 2018 as originally presented	2,144,018	(373,279)	31,749	1,130,501	10,744,153	13,677,142	785,872	14,463,014
Adjustment on initial adoption of HKFRS 15 (note 2.1)	–	16,177	–	–	432,704	448,881	17,476	466,357
Restated balance as at 1 January 2018	2,144,018	(357,102)	31,749	1,130,501	11,176,857	14,126,023	803,348	14,929,371
Profit for the year	–	–	–	–	2,427,326	2,427,326	74,210	2,501,536
Exchange differences arising from translation of overseas operations								
— subsidiaries	–	(1,478,956)	–	–	–	(1,478,956)	(39,851)	(1,518,807)
— associates	–	3,275	–	–	–	3,275	–	3,275
— joint ventures	–	(31,751)	–	–	–	(31,751)	–	(31,751)
Total comprehensive income for the year	–	(1,507,432)	–	–	2,427,326	919,894	34,359	954,253
Transfer to PRC statutory reserve	–	–	–	152,856	(152,856)	–	–	–
Issue of shares by way of Rights Issue (note 36)	4,655,769	–	–	–	–	4,655,769	–	4,655,769
Share issue expenses (note 36)	(48,105)	–	–	–	–	(48,105)	–	(48,105)
2018 interim dividend paid (note 11(a))	–	–	–	–	(102,701)	(102,701)	–	(102,701)
2017 final dividend paid (note 11(b))	–	–	–	–	(102,701)	(102,701)	–	(102,701)
Contributions from non-controlling interests	–	–	–	–	–	–	61,174	61,174
Return of capital to non-controlling interests	–	–	–	–	–	–	(68,478)	(68,478)
Transactions with owners	4,607,664	–	–	–	(205,402)	4,402,262	(7,304)	4,394,958
At 31 December 2018	6,751,682	(1,864,534)	31,749	1,283,357	13,245,925	19,448,179	830,403	20,278,582

* The total of these equity accounts at the end of the reporting period represents "Other reserves" in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before income tax		6,342,551	3,182,151
Adjustments for:			
Share of results of associates		(12,239)	(57,153)
Share of results of joint ventures		(266,127)	9,854
Gain on disposal of investment properties		(2,173)	(542)
Gain on disposal of property, plant and equipment		(58)	(459)
Depreciation and amortization		54,827	54,807
Fair value gain on investment properties		–	(191,830)
Change in fair value of a derivative financial instrument		(2,493)	(1,974)
Write-off of property, plant and equipment		17	6,603
Write-off of available-for-sale financial assets		–	535
Interest income		(394,818)	(178,146)
Finance costs		92,266	32,500
Exchange difference		970	(38,147)
Operating cash flows before movements in working capital		5,812,723	2,818,199
Increase in inventories of properties		(16,553,177)	(771,147)
Decrease in other inventories		109	208
Increase in trade and other receivables, prepayments and deposits		(778,389)	(3,851,513)
Increase in contract assets		(9,556)	–
Increase in restricted cash and deposits		(725,387)	(1,444,700)
Increase/(Decrease) in trade and other payables		1,478,063	(1,389,431)
Increase in sales deposits received		–	9,386,473
Increase in contract liabilities		17,069,397	–
Cash generated from operations		6,293,783	4,748,089
Income taxes paid		(2,710,664)	(1,878,359)
Net cash from operating activities		3,583,119	2,869,730
Investing activities			
Purchase of property, plant and equipment	15	(73,875)	(236,730)
Acquisition of subsidiaries, net of cash acquired		–	(1,912,695)
Capital injection in a joint venture		–	(54,242)
Distribution from an investee	20	–	384
Proceeds from disposal of investment properties		40,977	22,953
Proceeds from disposal of property, plant and equipment		115	629
Interest received		339,039	178,160
Increase in amount due from an associate		(3,273)	(65,852)
Decrease in amount due from a joint venture		–	31,779
Increase in amounts due from non-controlling interests		(217,224)	(123,295)
Increase in short-term time deposits with maturity beyond three months but within one year		(3,025,523)	(9,376)
Net cash used in investing activities		(2,939,764)	(2,168,285)

Consolidated Statement of Cash Flows *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Financing activities	40(b)		
New borrowings		11,623,346	12,636,885
Repayment of borrowings		(9,637,682)	(8,914,795)
Net proceeds from issue of guaranteed notes		3,904,715	–
Share issue expenses		(48,105)	–
Proceeds from rights issue		4,655,769	–
Dividends paid		(205,402)	(68,467)
Finance costs paid		(1,346,565)	(1,287,687)
Advances from non-controlling interests		2,528,758	–
Repayments to non-controlling interests		(662,301)	(324,390)
Advances from associates		2,159	131,536
Repayments to associates		(30,972)	(153,858)
Advances from joint ventures		879,364	1,196,769
Repayments to joint ventures		(704,062)	(1,976)
Advances from related companies		3,996	–
Repayments to related companies		(4,471,384)	(3,981,523)
Contribution from non-controlling interests	40(a)	3,812	4,633
Net cash generated from/(used in) financing activities		6,495,446	(762,873)
Net increase/(decrease) in cash and cash equivalents		7,138,801	(61,428)
Cash and cash equivalents at 1 January		15,536,625	14,594,755
Effect of foreign exchange rate changes on cash and cash equivalents		(923,413)	1,003,298
Cash and cash equivalents at 31 December		21,752,013	15,536,625
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the consolidated statement of financial position		25,361,554	16,149,246
Less: Short-term time deposits with maturity beyond three months but within one year	29(c)	(3,609,541)	(612,621)
Cash and cash equivalents at 31 December		21,752,013	15,536,625

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 of Hong Kong Limited (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 Company and its subsidiaries (collectively, 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 Huizhou, Nantong, Ganzhou, Shantou, Nanning, Hefei, Yangzhou and Weifang.

The Company is an associated company of China Overseas Land & Investment Limited ("COLI"). COLI is a company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. COLI's ultimate holding company is 中國建築集團有限公司 China State Construction Engineering Corporation* ("CSCEC"), an entity established in the PRC.

The financial statements on pages 68 to 187 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2018 were approved and authorized for issue by the directors on 20 March 2019.

2. ADOPTION OF NEW OR REVISED HKFRSs

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

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2018:

Annual improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28 Investment in Associates and Joint Ventures
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

* English translation is for identification only

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

Annual Improvements to HKFRSs 2014–2016 Cycle Amendments to HKAS 28 Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28 *Investments in Associates and Joint Ventures* clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* ("HKFRS 9") replaces HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39") for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (i) classification and measurement; (ii) impairment; and (iii) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognized in the consolidated financial statements. The new accounting policies are set out in note 3.13A below.

(i) Classification and measurement of financial instruments

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognized in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. A financial asset is classified as: (i) financial assets at amortized cost; (ii) financial assets at fair value through other comprehensive income; or (iii) financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39 (note 3.13B(i))	New classification under HKFRS 9 (note 3.13A(i))	Carrying amount at 1 January 2018 under HKAS 39 HK$'000	Carrying amount at 1 January 2018 under HKFRS 9 HK$'000
Unlisted equity instruments (note (a))	Available-for-sale financial assets (at cost)	Financial assets at fair value through other comprehensive income	1,196	1,196
A derivative financial instrument (note (b))	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	1,974	1,974
Trade and other receivables (note (c))	Loans and receivables	Financial assets at amortized cost	1,752,329	1,752,329
Amount due from an associate (note (c))	Loans and receivables	Financial assets at amortized cost	68,094	68,094
Amount due from a joint venture (note (c))	Loans and receivables	Financial assets at amortized cost	305,057	305,057
Amounts due from non-controlling interests (note (c))	Loans and receivables	Financial assets at amortized cost	353,678	353,678
Restricted cash and deposits (note (c))	Loans and receivables	Financial assets at amortized cost	7,553,007	7,553,007
Cash and bank balances (note (c))	Loans and receivables	Financial assets at amortized cost	16,149,246	16,149,246

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

Notes:

(a) As at 1 January 2018, investment in unlisted equity instruments were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. These unlisted equity instruments have no quoted price in an active market. The Group intends to hold these unlisted equity instruments for long-term strategic purposes. In addition, the Group has designated such unquoted equity instruments at the date of initial application of HKFRS 9 as measured at fair value through other comprehensive income. In the opinion of the directors, the previous carrying amount of the unlisted equity instruments are not materially different from its fair value as at 1 January 2018.

(b) The derivative financial instruments, being the interest rate swap contract, was classified and measured at fair value through profit or loss under HKAS 39. Such derivative financial instrument continues to be classified and measured at fair value through profit or loss upon adoption of HKFRS 9.

(c) The Group's trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests, restricted cash and deposits and cash and bank balances were previously classified as loans and receivables and measured at amortized cost under HKAS 39. These financial assets meet the "solely payments of principal and interest" criterion and it is the Group's business model to hold these financial assets to collect their contractual cash flows. Accordingly, they are classified as financial assets at amortized cost and continue to be subsequently measured at amortized cost upon the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts (see note 3.13A(vi)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at fair value through profit or loss at 1 January 2018.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECL") model". HKFRS 9 requires the Group to recognize an allowance for ECL for the Group's trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests earlier than HKAS 39. Restricted cash and deposits and cash and bank balances are also subject to ECL model but the impairment is immaterial for the current period as the counterparties are reputable banks.

Under HKFRS 9, impairment loss is measured on either of the following basis: (i) 12-month ECL (these are the ECL that result from possible default events within 12 months after the reporting date); and (ii) lifetime ECL (those are ECL that result from all possible default events over the expected life of a financial instrument).

In addition, loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt investment at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income, instead of reducing the carrying amount of the assets.

The initial adoption of HKFRS 9 has no material impact on the Group's loss allowance as at 1 January 2018. For further details of the Group's accounting policy for accounting for credit losses, see note 3.13A(ii).

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECL requirements, if any, are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognized in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9, if any, are recognized in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39 and thus certain comparative information may not be comparable with the current period.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9:

— The determination of the business model within which a financial asset is held; and

— The designation of investment in unlisted equity instruments not held for trading as financial assets at fair value through other comprehensive income.

In addition, if an investment in a debt investment had low credit risk at the date of initial application, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* ("HKAS 18") and related interpretations. HKFRS 15 has established a five steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim at enabling users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognized the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application, i.e. 1 January 2018. As a result, the financial information presented for 2017 has not been restated.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The following tables summarize the impact, net of tax, of transition to HKFRS 15 on the opening balances of retained profits and non-controlling interests:

	Increase/ (Decrease) HK$'000
Retained profits	
Earlier recognition of revenue and profit for sales of properties	826,142
Capitalization of costs of obtaining contracts	6,582
Related tax	(400,020)
Net increase in retained profits at 1 January 2018	432,704

	Increase/ (Decrease) HK$'000
Non-controlling interests	
Earlier recognition of revenue and profit for sales of properties	32,608
Capitalization of costs of obtaining contracts	324
Related tax	(16,014)
Translation adjustment	558
Net increase in non-controlling interests at 1 January 2018	17,476

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) *Timing of revenue recognition*

Previously, revenue arising from sales of properties was generally recognized as revenue when the significant risks and rewards of ownership of the properties are transferred to the buyers, whereas revenue from provision of services was recognized when the relevant services are provided to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised goods or service in the contract. This may be at a point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three conditions, then under HKFRS 15 the entity recognizes revenue from sales of that goods or service at a point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have significant impact on when the Group recognizes revenue from provision of services, including services in relation to hotel operation and other ancillary services. However, the timing of revenue recognition for sales of properties is affected as follows:

Impact on revenue recognition for sales of properties

Previously, revenue from sales of properties was recognized by the Group when (a) the significant risks and rewards of ownership of the properties are transferred to the buyers, (b) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained; (c) it is probable that the economic benefits associated with the transaction will flow to the Group; and (d) the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is usually taken at a point in time when the property has been delivered to the buyer.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(i) Timing of revenue recognition (Continued)

Impact on revenue recognition for sales of properties *(Continued)*

Under HKFRS 15, the Group determines whether the property has no alternative use to the Group and whether the Group has an enforceable right to payment from the customer for performance completed to date, taking into account the terms of the contract, the Group's business practice and the legal and regulatory environment where the Group's property development activities operate.

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

When the properties have no alternative use to the Group and the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue as the performance obligation are satisfied over time and the Group measures the progress towards complete satisfaction of performance obligation using input method, which is determined with reference the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

As a result of this change in accounting policy, the Group made adjustments which increased interests in joint ventures by HK$13,934,000, trade and other payables by HK$213,797,000, deferred tax liabilities by HK$416,935,000, non-controlling interests by HK$17,141,000, translation reserve by HK$15,960,000 and retained profits by HK$426,122,000 whereas reduced deferred tax assets by HK$12,823,000, inventories of properties by HK$1,552,270,000 and contract liabilities by HK$2,641,114,000.

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such policy when payments were received in advance.

It is the Group's practice to market its property projects while the properties are still under construction and the Group receives payments from the customers in advance of revenue recognition for sales of properties. Following the requirements under HKFRS 15, for contracts where the period between the payments by the customers and the transfer of the properties to the customers exceed one year, the transaction price is adjusted for the effect of the financing component, if significant.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(iii) Costs incurred to obtain a contract

The Group previously recognized costs of obtaining a contract, such as stamp duties and sales commission, as expenses in profit or loss when they were incurred. Under HKFRS 15, the Group is required to capitalize those costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortization period is one year or less from the date of initial recognition of the asset, in which case those costs can be expensed when incurred. Capitalized costs of obtaining contracts are charged to profit or loss when the revenue from the related property sale is recognized and are included in distribution and selling expenses or administrative expenses, where appropriate, at that time.

As a result of this change in accounting policy, the Group has capitalized stamp duty and sales commission related to property sales contracts amounting to HK$7,134,000 as at 1 January 2018 with a corresponding increase in retained profits by HK$6,582,000, translation reserve by HK$217,000 and non-controlling interests by HK$335,000.

(iv) Presentation of contract liabilities

Previously, payments from customers received in advance of revenue recognition were included in sales deposits received. Upon adoption of HKFRS 15, the Group reclassified advance payments from the customers amounting to HK$30,820,778,000 as contract liabilities to consistent with the terminology used under HKFRS 15.

The following tables summarize the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated income statement, consolidated statement of other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2018. These tables show only those line items impacted by the adoption of HKFRS 15.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

	Increase/ (Decrease) HK$'000
Line items in the consolidated income statement for the year ended 31 December 2018 impacted by the adoption of HKFRS 15	
Revenue	1,797,382
Cost of sales and services provided	1,055,219
Gross profit	742,163
Distribution and selling expenses	(8,369)
Administrative expenses	(1,186)
Operating profit	751,718
Share of results of joint ventures	52,845
Profit before income tax	804,563
Income tax expense	372,460
Profit for the year	432,103
Profit attributable to owners of the Company	417,803

	Increase HK Cents
Earnings per share	
Basic	12.6
Diluted	12.6

	Increase/ (Decrease) HK$'000
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15	
Other comprehensive income for the year	(42,632)
Total comprehensive income for the year	389,471
Total comprehensive attributable to owners of the Company	376,537

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

	Increase/ (Decrease) HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15	
Interests in joint ventures	64,061
Deferred tax assets	(25,211)
Total non-current assets	38,850
Inventories of properties	(2,533,679)
Contract assets	15,986
Trade and other receivables, prepayments and deposits	23,368
Total current assets	(2,494,325)
Trade and other payables	391,254
Contract liabilities	43,282,504
Sales deposits received	(47,727,668)
Total current liabilities	(4,053,910)
Net current assets	1,559,585
Total assets less current liabilities	1,598,435
Deferred tax liabilities	742,607
Net assets	855,828
Translation reserve	(25,089)
Retained profits	850,507
Total equity attributable to owners of the Company	825,418
Non-controlling interests	30,410
Total equity	855,828

	Increase/ (Decrease) HK$'000
Line items in the consolidated statement of cash flows for the year ended 31 December 2018 impacted by the adoption of HKFRS 15	
Profit before income tax	804,563
Adjustments for:	
Share of results of joint ventures	(52,845)
Exchange difference	(2,727)
Operating cash flows before movements in working capital	748,991
Increase in inventories of properties	1,091,877
Increase in trade and other receivables, prepayments and deposits	(24,325)
Increase in contract assets	(9,556)
Increase in trade and other payables	197,275
Increase in sales deposits received	(19,073,659)
Increase in contract liabilities	17,069,397

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

Amendments to HKFRS 15 Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40 Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterize the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no material impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

HKFRS 16	Leases[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing costs[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.
3 Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.
4 Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Those new or revised HKFRSs that are expected to have material impact on the Group's accounting policies and/or financial statements are set out below:

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. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.2 New or revised HKFRSs that have been issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

The Group reviewed all of the Group's leasing arrangements during 2018 in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group leases certain office premises, quarters and shopping mall operating right under operating lease arrangements, which are currently accounted for as operating lease as set out in note 3.11. As at 31 December 2018, the Group has non-cancellable operating lease commitment of HK$55,716,000 (note 43). These arrangements meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding lease liability in respect of these leases upon adoption of HKFRS 16. In the consolidated income statement, as the leases will be capitalized in the future, operating lease expense will no longer be recorded for these leases while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. In addition, more quantitative and qualitative disclosures about the leases will be made following the requirements of HKFRS 16.

HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 *Income Taxes* by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these long-term interests in associates or joint ventures before the impairment losses guidance within HKAS 28.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortized cost or at fair value through other comprehensive income if specified conditions are met, instead of at fair value through profit or loss.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognized when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognized in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognized only to the extent of the unrelated investors' interests in the joint venture or associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Basis of preparation

These financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments which are measured at fair value. The measurement bases are fully described in the accounting policies below.

All values are rounded to the nearest thousand except otherwise indicated.

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and conditions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group's financial statements, are disclosed in note 4.

3.2 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions, balances and unrealized gains and losses on transactions within the Group are eliminated on consolidation. Unrealized losses resulting from intercompany transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognized in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by another HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognized at acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are recognized against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent changes to contingent consideration classified as an asset or a liability are recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combination and basis of consolidation (Continued)

Goodwill or bargain purchases arising on business combination is accounted for according to the policies in notes 3.6 and 3.7 respectively.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transaction. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

3.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

— power over the investee;

— exposure, or rights, to variable returns from the investee; and

— the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealized losses provide evidence of impairment of the asset transferred they are recognized immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

3.5 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

— joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

— joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

— the structure of the joint arrangement;

— the legal form of joint arrangement structured through a separate vehicle;

— the contractual terms of the joint arrangement agreement; and

— any other facts and circumstances (including any other contractual arrangements).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Joint arrangements (Continued)

Joint ventures are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its joint venture are recognized only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealized losses provide evidence of impairment of the asset transferred, they are recognized immediately in profit or loss.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Joint operations are accounted for by recognizing the Group's share of assets, liabilities, revenue and expenses in accordance with its contractually conferred rights and obligations.

3.6 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree, over the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognized in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures rather than recognized as a separate asset in the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 3.12). Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Bargain purchases in business combinations

Any excess of the Group's interest in the fair value of the acquirees' net identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree is recognized immediately in profit or loss.

3.8 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognized in profit or loss. Rental income from investment properties is accounted for as described in notes 3.17A(iii) or 3.17B(iii).

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy of property, plant and equipment (note 3.9) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

3.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 3.12).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of each item of property, plant and equipment less its estimated residual value, if applicable, over its estimated useful life on a straight-line basis at the following rates per annum:

Category of property, plant and equipment	*Annual rates*
Land and buildings (note 3.11)	2% to 5%
Leasehold improvements	Over the shorter of the lease terms or 5 years
Furniture, fixtures and office equipment	10% to 33.33%
Motor vehicles	20% to 25%

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognized in profit or loss.

3.10 Intangible assets (Other than goodwill)

Intangible assets are recognized initially at cost. After initial recognition, intangible assets with finite useful life are amortized over the estimated useful life and assessed for impairment (note 3.12) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful life are not amortized but reviewed for impairment at least annually (note 3.12) either individually or at the cash-generating unit level. The useful life of an intangible asset with indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Shopping mall operating right

Shopping mall operating right represents the right of operating a shopping mall which is carried at cost less accumulated amortization and any impairment losses. Amortization is provided on a straight-line basis over the period of operation of 30 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased out by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment (note 3.9).

When the Group's interests in leasehold land and buildings are in the course of development for sale in ordinary course of business, the leasehold land component is included in properties under development or properties held for sale.

3.12 Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment, prepaid lease rental on land and interests in subsidiaries, associates and joint ventures are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Impairment of non-financial assets (Continued)

Impairment losses recognized for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognized in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

3.13 Financial instruments

A. *Policies applicable from 1 January 2018*

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered at their entirety when determining whether their cash flows are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets in the following measurement categories:

— financial assets at amortized cost

— financial assets at fair value through other comprehensive income; and

— financial assets at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

(i) *Financial assets (Continued)*

The classification is generally based on two criteria:

— the business model under which the financial asset is managed; and

— the contractual cash flow characteristics of the financial asset.

The subsequent measurement of financial assets depends on their classification as follows:

Debt instruments

There are three measurement categories into which the Group classifies its debt instruments:

— Amortized cost

Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.

— Fair value through other comprehensive income

Financial assets that are held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value though other comprehensive income. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

— Fair value through profit or loss

Financial assets that do not meet the criteria for amortized cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Changes in fair value and interest income are recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

(i) Financial assets (Continued)

Equity instruments

— Fair value through profit or loss

Equity investments at fair value through profit or loss are subsequently measured at fair value. Changes in fair value, dividend income and interest income are recognized in profit or loss.

— Fair value through other comprehensive income

For equity investment which is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income, they are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Dividend income is recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. On disposal of the investment, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. Equity instruments at fair value through other comprehensive income are not subject to impairment assessment.

(ii) Impairment loss on financial assets

The Group recognizes an allowance for ECL on debt instruments carried at amortized cost (including trade and other receivables, amounts due from an associate, a joint venture and non-controlling interest, restricted cash and deposits and cash and bank balances) and measured at fair value through other comprehensive income.

ECL are probability-weighted estimate of credit losses. Credit losses are measured at the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancement that are integral to the contract terms.

The ECL are measured on either of the following bases:

— 12-month ECL: these are the ECL that result from possible default events within 12 months after the reporting date; and

— lifetime ECL: these are ECL that result from all possible default events over the expected events life of a financial instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

(ii) Impairment loss on financial assets (Continued)

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

For trade receivables and contract assets, the Group applies the simplified approach in measuring ECL, that is to recognize a loss allowance based on lifetime ECL at each reporting date. The Group estimates the loss allowance using a provision matrix which is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognize a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on the lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, such as past due status and credit risk rating, where applicable.

The Group recognizes an impairment gain or loss in profit or loss for financial instruments carried at amortized cost by adjusting their carrying amount through the use of a loss allowance account. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

For investments in debt instruments that are measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

Interest income on credit-impaired financial assets is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial assets. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortized cost are initially measured at fair value, net of directly attributable costs incurred.

A financial liability is classified as (i) financial liabilities at fair value through profit or loss; or (ii) financial liabilities at amortized cost.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

(iii) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortized cost

Financial liabilities at amortized cost including trade payables, other payables and accruals, amounts due to associates, joint ventures, non-controlling interests and other related companies, borrowings and guaranteed notes payable are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (note 3.24).

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 3.13A(ii); and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the principles of HKFRS 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

(vi) Financial guarantee contracts (Continued)

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when ECL on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine ECL, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(vii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognized initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognized in profit or loss for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All financial assets are recognized when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

Regular way purchases and sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales of financial assets are purchases or sales of financial assets under a contract whose terms require delivery of assets within the timeframe established generally by regulation or convention in the marketplace concerned.

When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

<u>Financial assets at fair value through profit or loss</u>

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

<u>Loans and receivables</u>

Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(i) Financial assets (Continued)

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognized in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment of financial assets

At the end of each reporting period, financial assets other than those at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that come to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

— significant changes in the technological, financial market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data include but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(ii) Impairment of financial assets (Continued)

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognized in profit or loss of the period in which the impairment occurs. The carrying amount of loans and receivables is reduced through the use of an allowance account. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss of the period in which the reversal occurs.

Available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(iii) Financial liabilities

Financial liabilities, comprising borrowings, guaranteed notes payable, amounts due to related parties and trade and other payables, are recognized when the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract. All interest related charges are recognized in accordance with the Group's accounting policy for borrowing costs (note 3.24).

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in profit or loss.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

<u>Financial liabilities at amortized cost</u>

Borrowings, guaranteed notes payable (note 34), amounts due to related parties and trade and other payables are financial liabilities at amortized cost, which are recognized initially at fair value, net of directly attributable costs incurred and subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with HKAS 18.

(vii) Derecognition

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Inventories of properties

Inventories of properties comprise properties under development and properties held for sale. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventories of properties are stated at the lower of cost and net realizable value. Net realizable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventories of properties consist of land held under operating lease (note 3.11), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

3.15 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realizable value. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the presentation purpose of the consolidated statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.17 Recognition of revenue and other income

Income is classified by the Group when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

A. Policies applicable from 1 January 2018

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

A. *Policies applicable from 1 January 2018 (Continued)*

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

— the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) *Sales of properties*

Under HKFRS 15, the Group determines whether the property has no alternative use to the Group and whether the Group has an enforceable right to payment from the customer for performance completed to date, taking into account the terms of the contract, the Group's business practice and the legal and regulatory environment where the Group's property development activities operate.

When the property has no alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date, control over the property is regarded as transferred over time. In other cases, control over the property is regarded as transferred at a point in time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(i) Sales of properties (Continued)

If control of the property is transferred over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the property. The progress toward complete satisfaction of the performance obligation is measured using input method, which is determined by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

If control of the property is transferred at a point in time, revenue is recognized when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

(ii) Hotel operation and other ancillary services

Service fee income in relation to hotel operation and other ancillary services is recognized when the relevant services are provided to the customers.

(iii) Other sources of income

— Rental income is recognized on a straight-line basis over the periods of the respective tenancies.

— Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortized cost (i.e. gross carrying amount less loss allowance for credit-impaired financial assets); or (ii) the gross carrying amount for non credit-impaired financial assets.

B. Policies applied until 31 December 2017

Revenue and other income are recognized when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

(i) Sale of properties is recognized as revenue when all of the following criteria are met:

— the significant risks and rewards of ownership of the properties are transferred to buyers;

— neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

B. Policies applied until 31 December 2017 (Continued)

(i) (Continued)

Sale of properties is usually taken at the time when the construction of the respective properties has been completed and the properties have been delivered to the buyers.

Deposits received on properties sold prior to the date of revenue recognition are included in the statement of financial position as sales deposits received under current liabilities.

(ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(iii) Rental income is recognized on a straight-line basis over the periods of the respective tenancies.

(iv) Service fee income in relation to hotel operation and other ancillary services is recognized when such services are provided to the customers.

(v) Other service fee income are recognized on an appropriate basis over the relevant period in which the services are rendered.

3.18 Contract costs, contract assets and contract liabilities (Policies applicable from 1 January 2018)

Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalized as inventories or property, plant and equipment.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalized when incurred if the costs relate to revenue which will be recognized in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalized if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to subcontractors). Other costs of fulfilling a contract, which are not capitalized as inventories, or property, plant and equipment, are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Contract costs, contract assets and contract liabilities (Policies applicable from 1 January 2018) (Continued)

Contract costs (Continued)

Capitalized contract costs are stated as cost less accumulated amortization and impairment losses. Impairment losses are recognized to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of goods or services to which the costs relate. The accounting policy for revenue recognition is set out in note 3.17A.

Contract assets and contract liabilities

A contract assets is recognized when the Group recognizes revenue (see note 3.17A) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 3.13A(ii). Loss allowance for contract assets is measured at an amount equal to lifetime ECL. Contract assets are reclassified to receivable when the right to the consideration has become unconditional (note 3.19).

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see note 3.17A). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

3.19 Trade and other receivables (Policy applicable from 1 January 2018)

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract assets (see note 3.18). Receivables are stated as amortized cost using the effective interest method less allowance for credit losses (see note 3.13A(ii)).

3.20 Trade and other payables (Policy applicable from 1 January 2018)

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 3.13A(vi), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Retention monies represent amounts of progress billings which are payable to contractors/subcontractors and are due for settlement at the time specified in the contracts. They are classified as current liabilities as the Group expects to settle them within its normal operating cycle.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Foreign currencies

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the end of each reporting period are translated into HK$ at exchange rate prevailing at the end of each reporting period. Income and expense items are translated into HK$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in the translation reserve.

3.22 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognized assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realized or settled and that have been enacted or substantively enacted at the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Income tax (Continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 *Investment Property*. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the end of the reporting period. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit or tax loss of the periods in which the temporary differences are expected to reverse. The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of taxable income in those years. The estimate of future taxable income includes income or loss excluding reversals of temporary differences; and reversals of existing temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognized in profit or loss except when they relate to items recognized in other comprehensive income in which case the taxes are also recognized in other comprehensive income or when they relate to items recognized directly in equity in which case the taxes are also recognized directly in equity.

3.23 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognized in the year when the employees render the related service.

Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognized as an expense in profit or loss when the services are rendered by the employees.

Termination benefits

Termination benefits are recognized on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

3.25 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognized as a liability. Interim dividends are simultaneously proposed and declared and consequently, are recognized immediately as a liability when they are proposed and declared.

3.26 Provisions and contingent liabilities

Provision is recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.27 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third party and the other party is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

3.28 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker (i.e. the most senior executive management) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Fair value of investment properties

As disclosed in note 14, the fair values of the investment properties as at 31 December 2018 were estimated by the directors of the Company with reference to the property valuation as at 31 December 2018 conducted by independent professional valuers. The valuation was based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the estimates, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

(b) Net realizable value of inventories of properties

Include in the consolidated statement of financial position at 31 December 2018 is inventories of properties with an aggregate carrying amount of approximately HK$67,682,662,000 (2017: HK$54,414,394,000), which are stated at lower of cost and net realizable value. Management determines the net realizable value of the underlying properties which involves, inter-alia, considerable estimation based on analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure, contractor fee and construction material price lists and a forecast of future sales taking into account economic factors and government measures. If the actual net realizable values of the underlying properties are less than the previous estimations as a result of changes in market condition, government measures and policies and/or significant variation in the budgeted development cost, allowance for inventories of properties may result.

(c) Loss allowance for financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgment, in particular, the assessment of a significant increase in credit risk and credit-impaired financial asset as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Key sources of estimation uncertainty (Continued)

(c) Loss allowance for financial assets (Continued)

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of the key assumptions and inputs used are set out in note 49.3.

(d) Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation, particularly for PRC land appreciation tax ("LAT"), and the implementation of these taxes varies amongst various PRC cities. The Group has not finalized its LAT calculation and payments with certain local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of the land appreciation and its related LAT. The Group recognized income tax and LAT based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalized with the local tax authorities.

4.2 Critical judgments in applying accounting policies

(a) Recognition of revenue from sales of properties

Revenue from sales of properties held for sale is recognized over time when the property unit does not have an alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date; and in other cases, revenue from sale of properties is recognized at a point in time when the customer obtains control over the property.

The Group may not change or substitute the property unit or redirect the property unit for another use due to the contractual restrictions with the customer and thus the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customers for performance completed to date depends on the terms of sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgments. Management uses judgment, with reference to legal advice, to classify the sales contracts into those with enforceable right to payment and those without the right.

For those properties with control being transferred over time, the Group recognizes revenue over time based on the progress towards complete satisfaction of performance obligation at the end of the reporting period using input method, which is determined with reference the contract costs incurred to date as a percentage of total estimated costs for each contract. The Group estimates the development cost of each project based on the development plan as well as contractor fee and construction material price lists, taking into account economic factors. The Group allocates the development cost of the property project to each property unit based on types of properties, gross and saleable floor area and other relevant factors.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Critical judgments in applying accounting policies (Continued)

(a) Recognition of revenue from sales of properties (Continued)

Significant judgment and estimations are required in determining the estimated development costs and assessing the progress towards complete satisfaction of the performance obligation at the end of the reporting period. Estimated development costs are supported by cost budgets which were prepared by management on the basis of quotations provided by contractors/subcontractors/suppliers as well as from past experiences. The Group has set up policies and procedures in relation to cost budgeting and progress assessment. Management reviews the estimated development costs, costs incurred to date and costs to be incurred as well as the development progress regularly and when necessary, revises the estimated development cost. Notwithstanding that management regularly reviews and revises cost budgets when the construction progresses, actual development costs and gross profit margin may be higher or lower than the estimates and that will affect the revenue and gross profit recognized in the financial statements.

(b) Joint arrangement

As at 31 December 2018, the Group holds certain percentage of the registered capital/paid up capital and voting rights of certain joint arrangements. The contractual arrangements confer joint control over the relevant activities of the joint arrangements to the Group and at least one other party. In addition, the joint arrangements are structured as limited companies and provide the Group and the parties to the arrangements with rights to the net assets of the limited companies under the arrangements. Therefore, based on the judgment of the management, these arrangements are classified as joint ventures. Further details of the Group's joint arrangements are set out in note 19.

5. REVENUE

The principal activities of the Group are disclosed in note 1. Revenue derived from the Group's principal activities comprises of the followings:

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
— Sales of properties	**25,274,071**	20,004,650
— Hotel and other services income	**73,874**	66,567
	25,347,945	20,071,217
Revenue from other sources		
— Property rental income	**223,361**	206,614
Total revenue	**25,571,306**	20,277,831

5. REVENUE (CONTINUED)

As at 31 December 2018, the aggregate amount of transaction price allocated to the remaining performance obligations under the Group's existing contract is HK$45,638,938,000. This amount represents revenue expected to be recognized in the future from pre-sale contracts for properties under development entered into by the customers with the Group. The Group will recognize the expected revenue in future when or as the construction work is completed or when the properties are assigned to the customers, where appropriate, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient under HKFRS 15 to contracts in relation to hotel operations and other ancillary services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations as in general, those contracts in relation to hotel operation and other ancillary services have an original expected duration of one year or less.

6. 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 two reportable segments and other segment for its operating segments as follows:

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 mainly engages in hotel operations and generates service fee income in relation to hotel operation and other ancillary services.

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 during the year or in prior year. 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 (including finance costs) 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.

6. SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue by timing of revenue recognition

Disaggregation of revenue from contracts with customers by timing of revenue recognition is set out as follows:

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
For the year ended 31 December 2018				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred over time	4,255,652	–	–	4,255,652
— Goods transferred at a point in time	21,018,419	–	–	21,018,419
— Services transferred over time	–	–	73,874	73,874
	25,274,071	–	73,874	25,347,945
Revenue from other sources				
— Rental income	–	223,361	–	223,361
	25,274,071	223,361	73,874	25,571,306

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
For the year ended 31 December 2017				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred at a point in time	20,004,650	–	–	20,004,650
— Services transferred over time	–	–	66,567	66,567
	20,004,650	–	66,567	20,071,217
Revenue from other sources				
— Rental income	–	206,614	–	206,614
	20,004,650	206,614	66,567	20,277,831

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities

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

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
For the year ended 31 December 2018				
Reportable segment revenue	25,274,071	223,361	73,874	25,571,306
Reportable segment profit/(loss)	6,268,275	167,342	(16,727)	6,418,890
Corporate income				88,729
Change in fair value of a derivative financial instrument				2,493
Finance costs				(92,266)
Other corporate expenses				(75,295)
Profit before income tax				6,342,551
As at 31 December 2018				
Reportable segment assets	109,114,549	2,948,726	1,175,670	113,238,945
Tax assets				1,451,656
Corporate assets ^				3,578,673
Total consolidated assets				118,269,274
Reportable segment liabilities	57,615,314	102,136	13,020	57,730,470
Tax liabilities				7,082,456
Borrowings				25,531,233
Amounts due to related companies				431,856
Guaranteed notes payable				7,135,733
Other corporate liabilities				78,944
Total consolidated liabilities				97,990,692

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Consolidated HK$'000
For the year ended 31 December 2017				
Reportable segment revenue	20,004,650	206,614	66,567	20,277,831
Reportable segment profit/(loss)	2,951,018	365,664	(28,454)	3,288,228
Corporate income				671
Change in fair value of a derivative financial instrument				1,974
Finance costs				(32,500)
Other corporate expenses				(76,222)
Profit before income tax				3,182,151
As at 31 December 2017				
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
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 31 December 2018 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$138,542,000 (2017: HK$155,155,000), HK$113,755,000 (2017: HK$123,022,000), HK$59,333,000 (2017: HK$395,525,000) and HK$3,262,575,000 (2017: HK$61,518,000) respectively which are managed on a group basis.

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Corporate HK$'000	Consolidated HK$'000
Other information					
For the year ended 31 December 2018					
Interest income	304,508	1,453	129	88,728	394,818
Depreciation and amortization	7,318	5,470	27,141	14,898	54,827
Gain on disposal of investment properties	–	2,173	–	–	2,173
Gain on disposal of property, plant and equipment	52	–	6	–	58
Write-off of property, plant and equipment	11	–	6	–	17
Change in fair value of a derivative financial instrument	–	–	–	2,493	2,493
Share of profit of associates	12,239	–	–	–	12,239
Share of profit of joint ventures	261,133	4,994	–	–	266,127
Additions to specified non-current assets #	6,484	416	65,761	1,214	73,875
As at 31 December 2018					
Interests in associates	26,983	–	–	–	26,983
Interests in joint ventures	573,117	124,322	–	–	697,439

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK$'000	Property leasing HK$'000	Other segment HK$'000	Corporate HK$'000	Consolidated HK$'000
Other information					
For the year ended 31 December 2017					
Interest income	176,168	1,264	43	671	178,146
Depreciation and amortization	7,903	5,445	26,257	15,202	54,807
Fair value gain on investment properties	–	191,830	–	–	191,830
Gain on disposal of investment properties	–	542	–	–	542
Gain on disposal of property, plant and equipment	431	–	28	–	459
Write-off of property, plant and equipment	194	–	6,409	–	6,603
Change in fair value of a derivative financial instrument	–	–	–	1,974	1,974
Write-off of available-for-sale financial assets	–	–	535	–	535
Share of profit of associates	57,153	–	–	–	57,153
Share of (loss)/profit of joint ventures	(28,734)	18,880	–	–	(9,854)
Additions to specified non-current assets #	58,011	46	232,697	218	290,972
As at 31 December 2017					
Interests in associates	135,907	–	–	–	135,907
Interests in joint ventures	323,845	125,284	–	–	449,129

Including additions to the Group's investment properties, other properties, plant and equipment, prepaid lease rental on land, intangible assets, interests in associates and joint ventures (i.e. "specified non-current assets").

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

All of the Group's revenue is derived from activities conducted in the PRC excluding Hong Kong. Accordingly, no analysis of the Group's revenue by geographical locations is presented.

An analysis of the Group's specified non-current assets by geographical locations, determined based on physical location of the assets or location of operations in case of interests in associates and joint ventures, is as follows:

	2018 HK$'000	2017 HK$'000
Hong Kong	1,339	513
Other regions of the PRC	4,860,050	4,940,647
	4,861,389	4,941,160

Information about major customer

None of the customers individually contributed 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income on:		
Bank deposits	339,647	173,658
Amount due from a joint venture	15,140	4,488
Amounts due from non-controlling interests	40,031	–
Total interest income on financial assets measured at amortized cost	394,818	178,146
Sundry income	42,939	20,483
	437,757	198,629

8. PROFIT BEFORE INCOME TAX

	2018 HK$'000	2017 HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Amortization:		
Prepaid lease rental on land	9,495	9,256
Intangible assets#	4,606	4,490
Depreciation of property, plant and equipment	40,726	41,061
Total amortization and depreciation	54,827	54,807
Remuneration to auditor for audit services*:		
— Current year	2,940	2,740
Cost of sales and services provided comprise:		
— Amount of inventories recognized as expense	18,036,433	16,121,185
Net foreign exchange loss (note (a))	153,788	14,264
Operating lease charge on land and buildings	23,690	18,669
Outgoings in respect of:		
— investment properties	54,672	44,760
— others	27,656	13,381
	82,328	58,141
Net rental income from:		
— investment properties	(114,945)	(133,458)
— others	(26,088)	(15,015)
	(141,033)	(148,473)
Staff costs (note (b))	704,450	580,502
Gain on disposal of property, plant and equipment	58	459
Write-off of property, plant and equipment	17	6,603
Business tax and other levies	363,842	451,916

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

* fees for non-audit services rendered by the auditor amounted to HK$350,000 (2017: HK$530,000)

8. PROFIT BEFORE INCOME TAX (CONTINUED)

Notes:

(a) Net foreign exchange loss for current year amounting to HK$153,788,000 included net exchange loss of HK$140,850,000 arising from reduction of registered capital of three project companies established in the PRC in the year, which was included in "other operating expenses" in the consolidated income statement as it is non-recurrent in nature whereas the remaining exchange loss of HK$12,938,000 (2017: HK$14,264,000) was included in "administrative expenses".

(b) Staff costs (including directors' emoluments) comprise:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and other benefits	659,891	551,947
Contributions to defined contribution retirement plans (note 41)	44,559	28,555
	704,450	580,502

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings, overdrafts and other borrowings	1,041,206	865,288
Interest on amount due to an associate	–	15,263
Interest on amount due to non-controlling interests	–	2,218
Interest on amount due to related companies	48,662	182,628
Imputed interest expense on guaranteed notes payable (note 34)	287,671	169,548
Total interest expense on financial liabilities measured at amortized cost	1,377,539	1,234,945
Less: Amount capitalized (note)	(1,285,273)	(1,202,445)
	92,266	32,500

Note: Borrowing costs capitalized during the year arose from the general borrowing pool are calculated by applying an average capitalization rate of 4.50% (2017: 3.58%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2018 **HK$'000**	2017 HK$'000
Current tax for the year		
Hong Kong profits tax	–	–
Other regions of the PRC		
— Enterprise income tax ("EIT")	**1,857,637**	1,168,879
— LAT	**2,248,614**	1,027,643
	4,106,251	2,196,522
Under provision in prior years		
Other regions of the PRC	**2,713**	2,035
Deferred tax (note 35)	**(267,949)**	(278,140)
	3,841,015	1,920,417

For the year ended 31 December 2017, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year, if any. On 21 March 2018, the Hong Kong Legislative Council passed "The Inland Revenue (Amendment) (No. 7) Bill 2017" (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill became law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities will be taxed at 8.25% whereas profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profit tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 January 2018.

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any estimated assessable profit in Hong Kong for the current year and in prior year.

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

PRC LAT is levied at progressive rates from 30% to 60% (2017: 30% to 60%) 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. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to profit before income tax in the consolidated income statement at applicable tax rates as follows:

	2018 HK$'000	2017 HK$'000
Profit before income tax	**6,342,551**	3,182,151
Tax on profit at the rates applicable to profits in the jurisdictions concerned	**1,662,758**	838,153
Expenses not deductible for tax purpose	**180,148**	113,639
Income not taxable for tax purpose	**(16,695)**	(776)
Share of results of associates	**(3,060)**	(14,288)
Share of results of joint ventures	**(66,531)**	2,464
LAT deductible for calculation of income tax	**(562,153)**	(254,746)
Utilization of tax losses previously not recognized	**(8,873)**	(16,015)
Tax effect of tax losses not recognized	**43,916**	74,173
Under provision in prior years	**2,713**	2,035
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiaries	**200,347**	226,433
Others	**14,062**	(296)
	1,446,632	970,776
LAT	**2,394,383**	949,641
Income tax expense	**3,841,015**	1,920,417

11. DIVIDENDS

(a) Dividends payable to owners of the Company attributable to the year:

	2018 HK$'000	2017 HK$'000
Interim dividend — HK$0.03 (2017: HK$0.01) per ordinary share	**102,701**	22,822
Proposed final dividend — HK$0.112 (2017: HK$0.03) per ordinary share (note)	**383,416**	102,701
	486,117	125,523

Notes:

The final dividend of HK$0.112 (2017: HK$0.03) per ordinary share, approximately amounting to HK$383,416,000 (2017: HK$102,701,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

The final dividend in respect of financial year ended 31 December 2017 of HK$102,701,000 was calculated based on 3,423,360,000 ordinary shares, which is the total number of ordinary shares in issue upon the completion of the Rights Issue as defined and further detailed in note 36.

11. DIVIDENDS (CONTINUED)

(b) Dividends payable to owners of the Company attributable to the previous financial year:

	2018 HK$'000	2017 HK$'000
Final dividend in respect of previous financial year, approved and paid during the year of HK$0.03 (2017: HK$0.02) per ordinary share	102,701	45,645

12. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Earnings		
Profit for the year attributable to owners of the Company	2,427,326	1,271,398

	2018 '000	2017 '000 (Restated)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	3,322,354	2,370,018

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share represents the weighted average number of ordinary shares in issue in the respective years, after taking into account of the bonus element in the Rights Issue which was completed on 5 February 2018 as set out in note 36.

The comparative figures for the basic earnings per share for the year ended 31 December 2017 are restated to reflect the effect of the aforementioned bonus element.

Diluted earnings per share is same as the basic earnings per share as there have been no dilutive potential ordinary shares in existence during the year or prior year.

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance, Cap. 622, and the Companies (Disclosure of Information about Benefits of Directors) Regulation, Cap. 622G, are as follows:

Directors' emoluments

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus HK$'000	Retirement fund contribution HK$'000	Total HK$'000
For the year ended 31 December 2018					
Executive directors					
Mr. Zhang Guiqing	–	2,544	8,131	258	10,933
Mr. Wang Man Kwan, Paul	–	2,997	2,150	150	5,297
Mr. Yang Lin	–	1,774	5,780	211	7,765
Non-executive directors					
Mr. Yan Jianguo	–	–	–	–	–
Mr. Yung Kwok Kee, Billy	250	–	–	–	250
Independent non-executive directors					
Dr. Chung Shui Ming, Timpson	250	110	–	–	360
Mr. Lam Kin Fung, Jeffrey	250	110	–	–	360
Mr. Lo Yiu Ching, Dantes	250	110	–	–	360
	1,000	7,645	16,061	619	25,325

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Directors' emoluments (Continued)

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus HK$'000	Retirement fund contribution HK$'000	Total HK$'000
For the year ended 31 December 2017					
Executive directors					
Mr. Zhang Guiqing	–	1,056	8,325	18	9,399
Mr. Wang Man Kwan, Paul	–	2,907	2,050	18	4,975
Mr. Yang Lin (note (b))	–	484	6,292	14	6,790
Mr. Xiang Hong (note (c))	–	19	–	–	19
Non-executive directors					
Mr. Yan Jianguo (note (a))	664	–	–	–	664
Mr. Yung Kwok Kee, Billy	250	–	–	–	250
Mr. Xiao Xiao (note (d))	533	–	–	–	533
Independent non-executive directors					
Dr. Chung Shui Ming, Timpson	250	110	–	–	360
Mr. Lam Kin Fung, Jeffrey	250	110	–	–	360
Mr. Lo Yiu Ching, Dantes	250	110	–	–	360
	2,197	4,796	16,667	50	23,710

Notes:

(a) Mr. Yan Jianguo was appointed as non-executive director with effect from 13 June 2017.

(b) Mr. Yang Lin was appointed as executive director with effect from 21 March 2017.

(c) Mr. Xiang Hong resigned as executive director with effect from 10 January 2017.

(d) Mr. Xiao Xiao resigned as non-executive director with effect from 12 June 2017.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2017: nil).

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Five highest paid individuals

The five individuals with the highest emoluments in the Group include three (2017: three) directors, whose emoluments details are included in the disclosures above. The emoluments of the remaining two (2017: two) highest paid individuals for the years ended 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and other benefits	2,768	1,852
Discretionary bonus	8,669	6,934
Retirement fund contributions	294	76
	11,731	8,862

Their emoluments were within the following bands:

	Number of individuals	
	2018	2017
HK$3,500,001–HK$4,000,000	–	1
HK$5,000,001–HK$5,500,000	1	1
HK$6,000,001–HK$6,500,000	1	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2017: nil).

14. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
Fair value		
At 1 January	**2,835,203**	2,485,859
Translation adjustment	**(128,823)**	179,925
Disposals (note (a))	**(38,804)**	(22,411)
Change in fair value (note (b))	**–**	191,830
At 31 December	**2,667,576**	2,835,203

Notes:

(a) During the year ended 31 December 2018, the Group disposed of certain investment properties with aggregate carrying value of HK$38,804,000 (2017: HK$22,411,000) at aggregate consideration of HK$40,977,000 (2017: HK$22,953,000) and thus recognized gain on disposal of investment properties amounting to HK$2,173,000 (2017: HK$542,000).

(b) The fair value of the investment properties as at 31 December 2018 and 2017 is a level 3 recurring fair value measurement, which uses significant unobservable inputs (i.e. inputs not derived from market data).

For the year ended 31 December 2018, no fair value gain or loss arose from remeasurement of the Group's investment properties. The fair value gain arising from remeasurement of the investment properties for the year ended 31 December 2017 amounting to HK$191,830,000 represented an unrealized gain relating to those investment properties as at 31 December 2017.

(c) The fair values of the Group's investment properties as at 31 December 2018 were estimated by the directors with reference to the property valuation as at 31 December 2018 conducted by CHFT Advisory and Appraisal Limited.

The fair values of the Group's investment properties as at 31 December 2017 were determined by the directors with reference to the property valuation conducted on 31 October 2017 by Crowe Horwath First Trust Appraisal Pte. Ltd., and taking into account market development since the valuation date up to 31 December 2017.

CHFT Advisory and Appraisal Limited and Crowe Horwath First Trust Appraisal Pte. Ltd. are independent firms of professionally qualified valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in nearby location.

14. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation:

Properties	Location	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
China Overseas International Center *	Beijing	Direct comparison approach: — For office units, shops and carparks	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units and shops: Renminbi ("RMB") 33,279 to RMB57,710 per square meter ("sq.m.") (2017: RMB39,153 to RMB58,828 per sq.m.) Car parks: RMB278,481 per unit (2017: RMB306,962 per unit)	The higher the selling price per unit, the higher the fair value
		Income approach: Term and reversionary approach — For office units and shops	Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received	6.3% to 7.3% (2017: 6.3% to 7.3%)	The higher the term yield, the lower the fair value
			Reversionary yield taking into account annual unit market rental income and unit market value of comparable properties	6.8% to 7.8% (2017: 6.8% to 7.8%)	The higher the reversionary yield, the lower the fair value
			Monthly rent, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design	RMB184 to RMB419 per sq. m. (2017: RMB207 to RMB381 per sq. m.)	The higher the monthly rent, the higher the fair value
			Vacancy rate, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design	8.5% to 62.0% (2017: 15.9% to 60.8%)	The higher the vacancy rate, the lower the fair value
China Overseas Building (No. 9 Office Building) *	Jilin	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB6,640 per sq.m. (2017: office units and shops: RMB5,971 to RMB9,051 per sq.m.) Car parks: RMB44,792 per unit (2017:RMB145,000 per unit)	The higher the selling price per unit, the higher the fair value
CITIC Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB5,761 per sq.m. (2017: RMB5,761 per sq.m.)	The higher the selling price per unit, the higher the fair value
Jin Xin Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB6,336 per sq.m. (2017: RMB6,336 per sq.m.)	The higher the selling price per unit, the higher the fair value

* comprise office units, shops and carparks

Fair value measurements are based on the best use of the investment properties, which does not differ from their actual use.

Under the direct comparison approach, fair value is estimated by reference to the selling prices of comparable properties in close proximity which have been adjusted for differences in key attributes of the properties being valued and the comparable properties such as property age, size, characteristics and facilities.

Under the income approach: term and reversionary approach, fair value is estimated by taking into account the current passing rents of the properties and the reversionary potentials of the tenancies.

(d) The investment properties are leased to third parties and related companies under operating leases to earn rental income, further details of which are included in note 43.

(e) As at 31 December 2018 and 2017, none of the Group's investment properties were pledged as securities for the borrowings and banking facilities of the Group.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2017	498,401	4,084	57,166	28,966	376,732	965,349
Translation adjustment	34,710	–	4,261	2,325	34,023	75,319
Additions	5,179	–	46	1,033	230,472	236,730
Disposals	–	–	–	(170)	–	(170)
Write-off	(6,370)	–	(468)	(271)	–	(7,109)
At 31 December 2017 and 1 January 2018	531,920	4,084	61,005	31,883	641,227	1,270,119
Translation adjustment	(24,321)	–	(3,149)	(1,648)	(32,049)	(61,167)
Additions	14	1,214	6,948	359	65,340	73,875
Disposals	–	–	(171)	(237)	–	(408)
Write-off	–	(4,084)	(2,522)	(64)	–	(6,670)
At 31 December 2018	507,613	1,214	62,111	30,293	674,518	1,275,749
DEPRECIATION						
At 1 January 2017	4,994	3,257	11,118	18,461	–	37,830
Translation adjustment	1,233	–	1,238	1,826	–	4,297
Depreciation provided	27,597	817	6,256	6,391	–	41,061
Write-off	–	–	(427)	(79)	–	(506)
At 31 December 2017 and 1 January 2018	33,824	4,074	18,185	26,599	–	82,682
Translation adjustment	(2,750)	–	(1,153)	(1,537)	–	(5,440)
Depreciation provided	31,053	10	6,228	3,435	–	40,726
Disposals	–	–	(157)	(194)	–	(351)
Write-off	–	(4,084)	(2,505)	(64)	–	(6,653)
At 31 December 2018	62,127	–	20,598	28,239	–	110,964
NET CARRYING AMOUNT						
At 31 December 2018	445,486	1,214	41,513	2,054	674,518	1,164,785
At 31 December 2017	498,096	10	42,820	5,284	641,227	1,187,437

As at 31 December 2018, owned-occupied properties (including prepaid lease rental on land) with net carrying amount of HK$251,223,000 (2017: HK$394,684,000) were pledged as securities for the borrowings and banking facilities of the Group (note 42).

16. PREPAID LEASE RENTAL ON LAND

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	334,929	321,914
Translation adjustment	(15,025)	22,271
Amortization charged	(9,495)	(9,256)
Carrying amount at 31 December	310,409	334,929
Analyzed into:		
Non-current portion included in non-current assets	301,287	325,367
Current portion included in current assets	9,122	9,562
	310,409	334,929

17. INTANGIBLE ASSETS

	Shopping mall operating right HK$'000
COST	
At 1 January 2017	66,273
Translation adjustment	5,443
At 31 December 2017 and 1 January 2018	71,716
Translation adjustment	(3,819)
At 31 December 2018	67,897
AMORTIZATION AND IMPAIRMENT	
At 1 January 2017	54,354
Translation adjustment	4,755
Amortization charged	4,490
At 31 December 2017 and 1 January 2018	63,599
Translation adjustment	(3,627)
Amortization charged	4,606
At 31 December 2018	64,578
NET CARRYING AMOUNT	
At 31 December 2018	3,319
At 31 December 2017	8,117

18. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	26,983	135,907

Details of the Group's associates as at 31 December 2018 are set out in note 51.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
For the year ended 31 December		
Share of the associates' profit for the year	12,239	57,153
Share of the associates' other comprehensive income	3,275	6,923
Share of the associates' total comprehensive income	15,514	64,076
Dividends received from associates	124,438	–
As at 31 December		
Aggregate carrying amount of the Group's interests in associates	26,983	135,907

19. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Share of net assets	697,439	449,129
Less: Impairment	–	–
	697,439	449,129

As at 31 December 2018 and 2017, the Group had equity interests in 上海金鶴數碼科技發展有限公司 ("Shanghai Jinhe"), 中海宏洋海富(合肥)房地產開發有限公司 ("Hefei Haifu") and 汕頭中海凱旋置業有限公司 ("Shantou Kaixuan"). Shanghai Jinhe is a separate structured vehicle incorporated in the PRC which is principally engaged in property investment and property leasing in Shanghai. The Group has joint control over this arrangement as unanimous consent is required from all parties to the arrangement for the relevant activities of Shanghai Jinhe.

Hefei Haifu and Shantou Kaixuan are project companies for which the Group develops property projects jointly with other parties. Pursuant to the constitutional documents, the Group and the other venturers have joint control over Hefei Haifu and Shantou Kaixuan having regard to the voting power in the shareholders' and directors' meetings.

19. INTERESTS IN JOINT VENTURES (CONTINUED)

The contractual arrangements in relation to the aforesaid companies provide the Group with only the rights to the net assets of the joint arrangements, with the rights to the assets and obligation for the liabilities of the joint arrangements resting primarily with these companies.

Details of the Group's joint ventures as at 31 December 2018 are set out in note 52.

Hefei Haifu is considered a material joint venture of the Group. The following table illustrates the summarized financial information in respect of Hefei Haifu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 **HK$'000**	2017 HK$'000
As at 31 December		
Cash and cash equivalents	**219,972**	139,107
Other current assets	**2,250,785**	2,656,716
Current assets	**2,470,757**	2,795,823
Non-current assets	**202**	12,316
Trade and other payables	**261,712**	105,267
Other current liabilities	**574,203**	1,483,073
Current liabilities	**835,915**	1,588,340
Non-current financial liabilities	**570,650**	598,150
Non-current liabilities	**570,650**	598,150
Net assets	**1,064,394**	621,649
As at 31 December		
Reconciliation to the Group's interests in the joint venture:		
Proportion of the Group's ownership	**45%**	45%
Group's share of net assets of the joint venture	**478,977**	279,742
Carrying amount of the investment	**478,977**	279,742

19. INTERESTS IN JOINT VENTURES (CONTINUED)

	2018 HK$'000	2017 HK$'000
For the year ended 31 December		
Revenue	2,225,405	–
Interest income	6,519	5,655
Depreciation and amortization	(91)	(34)
Interest expense	(4,398)	–
Income tax (expense)/credit	(502,639)	9,011
Profit/(Loss) for the year	487,709	(27,033)
Other comprehensive income for the year	(47,887)	41,689
Total comprehensive income for the year	439,822	14,656
Dividend received	–	–

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 HK$'000	2017 HK$'000
For the year ended 31 December		
Share of the joint ventures' profit for the year	46,658	2,311
Share of the joint ventures' other comprehensive income	(10,202)	9,137
Share of the joint ventures' total comprehensive income	36,456	11,448
As at 31 December		
Aggregate carrying amount of the Group's interests in joint ventures	218,462	169,387

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through other comprehensive income		
Unlisted equity instruments	1,141	–
Available-for-sale financial assets		
Unlisted equity instruments, at cost	–	1,196

The Group holds certain unlisted equity instruments for long-term strategic purposes and does not intend to dispose of them in near future.

Prior to 1 January 2018, the Group's investment in unlisted equity instruments was classified as available-for-sale financial assets and was stated at cost less impairment. Upon adoption of HKFRS 9 on 1 January 2018, the Group irrevocably designated such investment as financial assets at fair value through other comprehensive income.

During the year ended 31 December 2017, an investee was de-registered and after deducting distribution received from this investee amounting to HK$384,000, the Group had written off the net carrying amount of the investment in this investee amounting to HK$535,000.

21. A DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2017, the Group entered into an interest rate swap contract for a bank loan which is interest-bearing at floating rate. The notional amount of this interest rate swap contract is United States Dollars ("US$") 40,000,000, which swaps interest rate on floating basis at 3-month London InterBank Offered Rate plus 1.515% per annum to fixed rate of 3.2% per annum. The contract period is 3 years commencing on 6 January 2017 and will mature on 6 January 2020. The fair value of this interest rate swap contract as at 31 December 2018 was estimated to be HK$4,467,000 (2017: HK$1,974,000).

As at 31 December 2018, the Group recognized "A derivative financial instrument" under non-current assets amounting to HK$4,467,000 (2017: HK$1,974,000) with the increase in fair value amounting to HK$2,493,000 (2017: HK$1,974,000) being credited to profit or loss under "Other gains or losses — Change in fair value of a derivative financial instrument".

22. INVENTORIES OF PROPERTIES

	2018 HK$'000	2017 HK$'000
Properties under development, at cost	58,205,012	40,190,356
Properties held for sale, at cost	9,477,650	14,224,038
	67,682,662	54,414,394

22. INVENTORIES OF PROPERTIES (CONTINUED)

As at 31 December 2018, properties under development amounting to HK$44,253,955,000 (2017: HK$29,233,970,000) are not expected to be recovered within twelve months from the end of the reporting period.

As at 31 December 2018, leasehold interests in land included in inventories of properties amounted to HK$34,046,534,000 (2017: HK$26,318,753,000).

As at 31 December 2018, inventories of properties with aggregate carrying value of HK$228,945,000 (2017: HK$765,193,000) were pledged as securities for the borrowings and banking facilities of the Group, which will be released upon the Group's settlement of the borrowings and banking facilities (note 42).

23. OTHER INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials and consumables	**1,861**	2,060

24. CONTRACT ASSETS

Details of the contract assets recognized by the Group are as follows:

	As at **31 December** **2018** **HK$'000**	**As at** **1 January** **2018** **HK$'000**	As at 31 December 2017 HK$'000
Contract costs of obtaining contracts (note)	**15,986**	**7,134**	–

Note:

Contract costs capitalized as at 31 December 2018 related to the incremental costs incurred in obtaining the contracts, primarily sale commission and stamp duty paid/payable. Contract costs are recognized as part of distribution and selling expenses or administrative expenses, where appropriate, in profit or loss in the period in which revenue from the related property sales is recognized. The amount of capitalized contract costs recognized in profit or loss for the year ended 31 December 2018 was HK$98,583,000. There was no impairment provision in relation to capitalized contract costs as at 31 December 2018.

In the comparative period, these incremental costs incurred in obtaining the contracts were recognized as expenses under "distribution and selling expenses" and "administrative expenses" when incurred and therefore, an opening balance adjustment was made upon adoption of HKFRS 15 on 1 January 2018 in this regard (note 2.1).

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018 HK$'000	2017 HK$'000
Trade receivables	74,083	38,191
Less: Loss allowance for impairment of trade receivables (note (b))	–	–
Trade receivables, net (note (a))	74,083	38,191
Other receivables (note (c))	2,533,715	1,721,316
Prepayments and deposits (note (d))	7,550,781	8,043,417
Less: Loss allowance for impairment of other receivables (note (e))	(6,848)	(7,178)
	10,077,648	9,757,555
	10,151,731	9,795,746

Notes:

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

	2018 HK$'000	2017 HK$'000
30 days or below	71,363	1,116
31–60 days	62	503
61–90 days	81	508
91–180 days	1,361	464
181–360 days	122	17
Over 360 days	1,094	35,583
	74,083	38,191

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognized only when there was objective evidence of impairment (note 3.13B(ii)). As at 31 December 2017, none of the Group's trade receivables was determined to be impaired. The ageing analysis of overdue trade receivables not considered impaired, based on past due date, as at 31 December 2017 is as follows:

	2017 HK$'000
Over 360 days	35,423

Trade receivables which were neither past due nor impaired at 31 December 2017 related to number of unrelated customers who did not have a recent history of default. Trade receivables that were past due but not impaired related to certain customers. Based on past experience, these balances were still considered fully recoverable. Accordingly, no impairment provision was considered necessary as at 31 December 2017 in respect of these receivables.

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(b) The movements in the loss allowance for trade receivables during the year are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	–	3,344
Translation adjustment	–	120
Write-off	–	(3,464)
At 31 December	–	–

The Group recognizes loss allowance for trade receivables for the years ended 31 December 2018 and 2017 respectively based on the accounting policies stated in notes 3.13A(ii) and 3.13B(ii). Further details of the Group's credit policy and credit risk arising from trade receivables are set out in note 49.3.

(c) The balances of other receivables mainly comprise the followings:

(i) Other receivables as at 31 December 2017 included a receivable from the land authority amounting to HK$391,097,000. In 2017, the Group paid tender deposit amounting to RMB526,600,000 for acquisition of lands through public tender, of which RMB197,625,000 had been refunded to the Group during 2017 whereas the remaining balance of approximately HK$391,097,000 remained outstanding as at 31 December 2017. Such amount had been refunded to the Group in January 2018.

(ii) Proceeds received from sales of properties amounting to HK$1,389,949,000 (2017: HK$434,591,000) in aggregate placed by the Group to certain government agencies as deposit. In accordance with the relevant regulations in certain PRC cites, certain project companies are required to place proceeds received from sales of properties to the government agencies. The project companies can apply for release of the proceeds when the construction work of the property projects has reached certain milestones stipulated in the pre-sale proceeds supervision agreements.

(d) The balances of prepayments and deposits mainly comprise the followings:

(i) Deposits amounting to HK$5,219,643,000 (2017: HK$6,300,455,000) in aggregate paid by the Group for the acquisition of lands in the PRC.

At the end of the reporting period, the dismantling and smoothing work on certain lands were still in progress and thus were not yet handed over to the Group. Accordingly, the land transfer application and procedures for those lands were in progress at the end of the reporting period. As assessed by the directors, the legal titles of those lands will be passed to the Group by the local authority in due course upon handover of the lands. In addition, the application of the land certificates of certain land parcels was still in progress at the end of the reporting period, in particular for those land parcels acquired by the Group near the reporting date. As assessed by the directors, the land certificates of those land parcels will be issued to the Group in due course upon completion of the relevant administrative procedures without encountering significant difficulty.

(ii) The Group incurred expenditure and made payment for the primary development on certain areas in Hohhot-Inner Mongolia (the "Primary Development Land"). In prior years, the Group successfully acquired land use right for certain area of the Primary Development Land through public tender. According to the approval document issued by the relevant land authority in Hohhot, the cost of these lands was offset against the payment made by the Group for the Primary Development Land. As at 31 December 2017, the outstanding amount paid by the Group for the Primary Development Land was HK$73,687,000.

During the year ended 31 December 2018, the Group successfully acquired a land parcel in Hohhot-Inner Mongolia at acquisition cost of RMB43,541,000, equivalent to HK$51,727,000. The Group and the land authority agreed that the land consideration for this land parcel was offset against the payment made by the Group for the Primary Development Land.

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(e) The movements in the loss allowance for other receivables during the year are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	7,178	14,606
Translation adjustment	(330)	754
Write-off	–	(8,182)
At 31 December	6,848	7,178

The Group recognizes loss allowance for other receivables for the years ended 31 December 2018 and 2017 respectively based on the accounting policies stated in notes 3.13A(ii) and 3.13B(ii). Further details of the Group's credit policy and credit risk arising from other receivables are set out in note 49.3.

26. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts due from/to associates as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE FROM/TO JOINT VENTURES

The amounts due from/to joint ventures as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand except for an amount due from a joint venture as at 31 December 2018 amounting RMB255,000,000, equivalent to HK$291,032,000 (2017: HK$305,057,000). This amount represented a loan granted to the joint venture in 2017, which is unsecured, interest-bearing at fixed rate of 5.225% per annum and repayable in September 2019.

28. AMOUNTS DUE FROM/TO NON-CONTROLLING INTERESTS

The amounts due from/to non-controlling interests as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand.

During the year ended 31 December 2017, the entire amount of dividends attributable to non-controlling interests amounting to HK$25,015,000 was credited to the current account with the non-controlling interests.

29. RESTRICTED CASH AND DEPOSITS/CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash at banks and in hand (note (b))	33,264,183	23,702,253
Less: Restricted cash and deposits (note (a))	(7,902,629)	(7,553,007)
Cash and bank balances	25,361,554	16,149,246

29. RESTRICTED CASH AND DEPOSITS/CASH AND BANK BALANCES (CONTINUED)

Notes:

(a) Certain bank balances are restricted as follows:

— In accordance with the relevant documents issued by the PRC State-Owned Land and Resources Bureau, certain subsidiaries engaging in property development are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resources Bureau is obtained. Such guarantee deposits will only be released after the completion of development of the related pre-sale properties or issuance of the real estate ownership certificates, whichever is the earlier.

— In relation to the mortgage agreements entered into by the buyers and the banks, certain subsidiaries are required to place proceeds received from sales of properties as guarantee deposits in designated bank accounts maintained with the banks. These deposits can only be used to settle construction fees of the relevant property projects and for certain other cases, these deposits could be used to settle the project loans arranged with the banks to finance the relevant property projects. Balances in these designated bank accounts are subject to monitoring by the banks.

The amount of cash restricted for the above purposes as at 31 December 2018 was HK$7,902,629,000 (2017: HK$7,553,007,000).

(b) Cash balance denominated in RMB amounted to approximately HK$30,002,239,000 (2017: HK$23,640,928,000) as at 31 December 2018. The RMB is not freely convertible into other currencies.

(c) Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The directors consider that the fair values of the short-term deposits are not materially different from their carrying amounts because of the short maturity period.

The Group's short-term time deposits as at 31 December 2018 amounted to HK$3,815,585,000, of which deposits of HK$3,609,541,000 had original maturity of six to eight months and earned interest income at interest rates ranged from 1.82% to 3.43% per annum whereas the remaining balance of HK$206,044,000 had original maturity of one month and earned interest income at interest rates ranged from 2.97% to 3.31% per annum. As at 31 December 2017, the Group had time deposits of HK$612,621,000 placed with banks with original maturity period of six months and earned interest income at interest rate at 1.82% per annum. The entire amount of short-term time deposits as of 31 December 2018 and 2017 was included in "cash and bank balances".

30. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables (note)	9,162,955	8,436,569
Other payables and accruals	1,418,405	922,317
Deposits received	239,934	280,552
	10,821,294	9,639,438

Note:

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

	2018 HK$'000	2017 HK$'000
30 days or below	2,771,902	3,145,217
31–60 days	325,291	230,550
61–90 days	356,028	121,284
91–180 days	866,930	719,689
181–360 days	1,503,213	1,443,695
Over 360 days	3,339,591	2,776,134
	9,162,955	8,436,569

31. CONTRACT LIABILITIES/SALES DEPOSITS RECEIVED

	As at 31 December 2018 HK$'000	As at 1 January 2018 HK$'000	As at 31 December 2017 HK$'000
Property development — Sales deposits and instalments received			
Contract liabilities	43,282,504	28,179,664	–
Sales deposits received	–	–	30,820,778

Notes:

(a) Upon adoption of HKFRS 15, an opening adjustment was made on 1 January 2018 to reclassify sales deposits and instalments received from the customers in relation to property sales from "sales deposits received" to "contract liabilities" and adjust for the impact on revenue recognition for sales of properties over time (note 2.1).

(b) Payment terms which impact on the amount of contract liabilities recognized are as follows:

Property development
The Group receives payments from customers based on billing schedule as set out in the sales contracts. Payments are usually received in advance of the performance under the contracts which are mainly from sales of properties.

(c) Revenue recognized for the year ended 31 December 2018 that was included in contract liabilities at the beginning of the year was HK$17,430,869,000.

(d) The amount of sales deposits and instalments received expected to be recognized as revenue after more than one year is HK$15,315,314,000.

32. AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies as at 31 December 2018 amounted to HK$431,856,000 (2017: HK$4,942,323,000) in aggregate. The amounts due were unsecured and the entire amount as at 31 December 2018 were denominated in RMB whereas as at 31 December 2017, approximately HK$1,532,425,000 were denominated in HK$ and the remaining balance of HK$3,409,898,000 were denominated in RMB.

Balances denominated in HK$ amounting to HK$1,532,325,000 as at 31 December 2017 were interest-bearing at Hong Kong Interbank Offered Rate and balances denominated in RMB as at 31 December 2018 amounting to HK$85,627,000 (2017: HK$3,409,898,000) were interest-bearing at the People's Bank of China prevailing lending rate whereas the remaining balances were interest-free.

As at 31 December 2018, balances amounting to HK$346,229,000 and HK$85,627,000 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 were repayable on or before 29 June 2018 and on 18 October 2020 respectively.

33. BORROWINGS

	2018 HK$'000	2017 HK$'000
Current liabilities		
Bank borrowings	4,776,456	4,312,899
Other loans	1,483,690	598,150
	6,260,146	4,911,049
Non-current liabilities		
Bank borrowings	19,271,087	18,104,489
Other loans	–	1,196,300
	19,271,087	19,300,789
	25,531,233	24,211,838

	2018 HK$'000	2017 HK$'000
Analysis into:		
Bank borrowings		
Secured	103,295	285,325
Unsecured	23,944,248	22,132,063
	24,047,543	22,417,388
Other loans		
Unsecured	1,483,690	1,794,450
	25,531,233	24,211,838

Note:

As at 31 December 2018, borrowings amounting to HK$103,295,000 (2017: HK$285,325,000) were secured by properties of the Group (note 42). In addition, as at 31 December 2018, borrowings amounting to HK$16,556,000 (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:

	2018 HK$'000	2017 HK$'000
On demand or within one year	4,776,456	4,312,899
More than one year, but not exceeding two years	9,974,672	2,306,309
More than two years, but not exceeding five years	9,296,415	15,798,180
	24,047,543	22,417,388

33. BORROWINGS (CONTINUED)

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

	2018 **HK$'000**	2017 HK$'000
On demand or within one year	**1,483,690**	598,150
More than one year, but not exceeding two years	**–**	1,196,300
	1,483,690	1,794,450

The above analysis is based on scheduled repayment dates as set out in the loan agreements or the repayment schedules agreed with the banks and other lenders.

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

	2018 **HK$'000**	2017 HK$'000
HK$	**8,283,073**	11,683,072
RMB	**15,311,242**	8,914,237
US$	**1,936,918**	3,614,529
	25,531,233	24,211,838

As at 31 December 2018, the Group's borrowings have been arranged as follows:

— borrowings denominated in HK$ are interest-bearing at annual floating rates of 3.35% to 4.84% (2017: 2.75% to 4.13%);

— borrowings denominated in US$ amounting to HK$314,000,000 (2017: HK$2,001,948,000) are interest-bearing at annual floating rate of 4.00% (2017: 3.20% to 3.63%) while the remaining balance of HK$1,622,918,000 (2017: HK$1,612,581,000) is interest-bearing at annual fixed rate of 3.42% (2017: 3.42%); and

— borrowings denominated in RMB amounting to HK$14,740,592,000 (2017: HK$8,316,087,000) are interest-bearing at annual floating rates of 4.28% to 5.23% (2017: 4.28% to 5.70%) while the remaining balance of HK$570,650,000 (2017: HK$598,150,000) are interest-bearing at annual fixed rates of 3.80% (2017: 3.80%).

In respect of those borrowings which have been arranged to finance property development projects, the Group is required to place sales proceeds received from the buyers, rental income received and fund raised in relation to those projects into designated bank accounts. These bank accounts are subject to monitoring by the banks and the financial institutions and they have priority to claim repayment for the borrowings from these designated accounts.

34. GUARANTEED NOTES PAYABLE

	2018 HK$'000	2017 HK$'000
Current liabilities		
Guaranteed notes payable	3,211,357	–
Non-current liabilities		
Guaranteed notes payable	3,924,376	3,159,180
	7,135,733	3,159,180

(a) Guaranteed notes issued in 2014

On 15 January 2014, the Company and China Overseas Grand Oceans Finance II (Cayman) Limited ("COGO Finance II"), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the "2014 Notes Subscription Agreement") regarding the issue of guaranteed notes in aggregate principal amount of US$400,000,000 (the "2014 Guaranteed Notes"). The completion of the 2014 Notes Subscription Agreement took place and the 2014 Guaranteed Notes were issued on 23 January 2014. The 2014 Guaranteed Notes were issued at 99.037% of the principal amount.

The 2014 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance II, and are unconditional and irrevocably guaranteed by the Company.

Interest on the 2014 Guaranteed Notes is payable semi-annually in arrears on 23 January and 23 July in each year at the rate of 5.125% per annum, commencing on 23 July 2014.

COGO Finance II may at any time upon giving not less than 30 or more than 60 days' notice to the noteholders, redeem the 2014 Guaranteed Notes, in whole but not in part, at Early Redemption Amount (as defined in the 2014 Notes Subscription Agreement). The 2014 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2014 Guaranteed Notes will mature on 23 January 2019 at their principal amount.

Further details regarding the issue of the 2014 Guaranteed Notes have been set out in the announcement of the Company dated 16 January 2014.

The net proceeds from the issue of the 2014 Guaranteed Notes at 99.037% of the principal amount after deducting the direct transaction costs of HK$20,982,000 were HK$3,049,165,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.505% per annum. For the year ended 31 December 2018, imputed interest of HK$172,338,000 was incurred (2017: HK$169,548,000). The 2014 Guaranteed Notes are listed on the Stock Exchange. With reference to the average quotation of the 2014 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2014 Guaranteed Notes as at 31 December 2018 was HK$3,142,229,000 (2017: HK$3,150,732,000) and it is within Level 1 of the fair value hierarchy.

34. GUARANTEED NOTES PAYABLE (CONTINUED)

(a) Guaranteed notes issued in 2014 (Continued)

The 2014 Guaranteed Notes matured on 23 January 2019 and accordingly, they were presented as current liabilities as at 31 December 2018. On 23 January 2019, the Group fully settled the outstanding principal of US$400,000,000 together with the interest accrued thereon amounting to US$10,250,000, which amounted to HK$3,220,463,000 in aggregate.

(b) Guaranteed notes issued in 2018

On 24 May 2018, the Company and China Overseas Grand Oceans Finance IV (Cayman) Limited ("COGO Finance IV"), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the "2018 Notes Subscription Agreement") regarding the issue of guaranteed notes in aggregate principal amount of US$500,000,000 (the "2018 Guaranteed Notes"). The completion of the 2018 Notes Subscription Agreement took place and the 2018 Guaranteed Notes were issued on 1 June 2018. The 2018 Guaranteed Notes were issued at 99.917% of the principal amount.

The 2018 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance IV, and are unconditional and irrevocably guaranteed by the Company.

Interest on the 2018 Guaranteed Notes is payable semi-annually in arrears on 1 June and 1 December in each year at the rate of 4.875% per annum, commencing on 1 December 2018.

COGO Finance IV may at any time upon giving not less than 30 or more than 60 days' notice to the noteholders, redeem the 2018 Guaranteed Notes, in whole but not in part, at Early Redemption Amount (as defined in the 2018 Notes Subscription Agreement). The 2018 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2018 Guaranteed Notes will mature on 1 June 2021 at their principal amount.

The net proceeds from the issue of the 2018 Guaranteed Notes at 99.917% of the principal amount after deducting the direct transaction costs of HK$17,027,000 were HK$3,904,715,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.063% per annum. For the year ended 31 December 2018, imputed interest of HK$115,333,000 was incurred. The 2018 Guaranteed Notes are listed on the Stock Exchange. With reference to the average quotation of the 2018 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2018 Guaranteed Notes as at 31 December 2018 was HK$3,905,611,000 and it is within Level 1 of the fair value hierarchy.

34. GUARANTEED NOTES PAYABLE (CONTINUED)

(c) 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	3,148,508
Imputed interest expense (note 9)	169,548
Finance costs paid	(158,876)
Carrying amount as at 31 December 2017 and 1 January 2018	**3,159,180**
Fair value on initial recognition of 2018 Guaranteed Notes (note (b))	**3,921,742**
Direct transaction costs of issuing 2018 Guaranteed Notes (note (b))	**(17,027)**
Imputed interest expense (note 9)	**287,671**
Finance costs paid	**(256,597)**
Translation adjustment	**40,764**
Carrying amount as at 31 December 2018	**7,135,733**

35. DEFERRED TAX

Details of the deferred tax liabilities and assets recognized by the Group and movements during the current and prior reporting periods are as follows:

	Inventories of properties HK$'000	Revaluation of properties HK$'000	Provision for LAT HK$'000	Withholding tax HK$'000	Tax losses HK$'000	Recognition of revenue over time HK$'000	Total HK$'000
At 1 January 2017	2,945,846	513,256	(250,477)	361,505	(95,274)	–	3,474,856
Translation adjustment	192,272	37,527	(7,295)	28,047	(6,630)	–	243,921
(Credited)/Charged to profit or loss (note 10)	(419,977)	46,448	12,143	81,671	1,575	–	(278,140)
At 31 December 2017	2,718,141	597,231	(245,629)	471,223	(100,329)	–	3,440,637
Impact of initial application of HKFRS 15 (note 2.1)	–	–	–	–	12,823	416,935	429,758
At 1 January 2018	**2,718,141**	**597,231**	**(245,629)**	**471,223**	**(87,506)**	**416,935**	**3,870,395**
Translation adjustment	**(123,696)**	**(14,340)**	**27,578**	**(28,299)**	**3,762**	**(32,370)**	**(167,365)**
(Credited)/Charged to profit or loss (note 10)	**(364,030)**	**(903)**	**(414,272)**	**168,764**	**6,658**	**335,834**	**(267,949)**
At 31 December 2018	**2,230,415**	**581,988**	**(632,323)**	**611,688**	**(77,086)**	**720,399**	**3,435,081**

35. DEFERRED TAX (CONTINUED)

Represented by:

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities	3,619,231	3,786,595
Deferred tax assets	(184,150)	(345,958)
	3,435,081	3,440,637

The two-tiered profits tax rates regime have no material impact on the deferred tax balances of the Group as at 31 December 2018 as the qualifying entity nominated by the Group did not have material temporary differences as at 31 December 2018. Deferred tax assets and liabilities of other group entities continue to be measured using a flat rate of 16.5%.

As at 31 December 2018, the Group has unused tax losses of HK$923,132,000 (2017: HK$769,702,000) available for offset against future profits. A deferred tax asset of HK$77,086,000 (2017: HK$100,329,000) has been recognized in respect of tax losses of approximately HK$308,345,000 (2017: HK$401,314,000). No deferred tax assets have been recognized in respect of the remaining tax losses of HK$614,787,000 (2017: HK$368,388,000) due to unpredictability of future profit streams. The tax losses incurred by the relevant subsidiaries may be carried forward for five years from the financial year when the corresponding loss was incurred.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 and the applicable tax rates are 5% or 10%.

As at 31 December 2018, deferred tax liabilities of approximately HK$611,688,000 (2017: HK$471,223,000) have been recognized in respect of the undistributed earnings of certain PRC subsidiaries amounting to approximately HK$12,137,225,000 (2017: HK$9,325,362,000). Deferred tax liabilities of approximately HK$47,864,000 as at 31 December 2018 (2017: HK$7,783,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of other relevant PRC subsidiaries as at 31 December 2018, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK$1,053,820,000 as at 31 December 2018 (2017: HK$254,764,000).

36. SHARE CAPITAL

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

Note:

On 7 November 2017, the board of directors 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. The gross proceeds from the Rights Issue was HK$4,655,769,000 and after deducting direct transaction costs of HK$48,105,000, net proceeds amounting to 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.

37. RESERVES

The Group

Details of the movements in the Group's reserves are set out in the consolidated statement of changes in equity. The nature and purpose of the reserves are as follows:

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy set out in note 3.21.

Asset revaluation reserve

Asset revaluation reserve arises from revaluation of assets such as properties (excluding investment properties).

Statutory reserves

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain percentage of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

37. RESERVES (CONTINUED)

The Group (Continued)

Retained profits

Retained profits of the Group comprise:

	2018 HK$'000	2017 HK$'000
Final dividend proposed for the year (note 11(a))	383,416	102,701
Retained profits after proposed dividend	12,862,509	10,641,452
Total retained profits as at 31 December	13,245,925	10,744,153

The Company

Details of the movements on the Company's retained profits are as follows:

	HK$'000
At 1 January 2017	1,055,479
Profit and total comprehensive income for the year	166,020
2017 interim dividend paid (note 11(a))	(22,822)
2016 final dividend paid (note 11(b))	(45,645)
At 31 December 2017 and 1 January 2018	1,153,032
Profit and total comprehensive income for the year	1,480,162
2018 interim dividend paid (note 11(a))	(102,701)
2017 final dividend paid (note 11(b))	(102,701)
At 31 December 2018	2,427,792

Retained profits of the Company comprise:

	2018 HK$'000	2017 HK$'000
Final dividend proposed for the year (note 11(a))	383,416	102,701
Retained profits after proposed dividend	2,044,376	1,050,331
Total retained profits as at 31 December	2,427,792	1,153,032

38. NON-CONTROLLING INTERESTS

The total non-controlling interests as at 31 December 2018 were HK$830,403,000 (2017: HK$785,872,000), which are attributed to those subsidiaries not wholly-owned by the Group. In the opinion of the directors, none of the non-controlling interests of these subsidiaries are material to the Group.

39. STATEMENT OF FINANCIAL POSITION OF HOLDING COMPANY

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,214	11
Interests in subsidiaries	50	1,944,077	1,944,077
		1,945,291	1,944,088
Current assets			
Other receivables, prepayments and deposits		59,297	4,428
Amounts due from subsidiaries		18,889,170	17,387,044
Cash and bank balances		3,230,249	52,316
		22,178,716	17,443,788
Current liabilities			
Other payables and accruals		56,114	43,422
Amounts due to subsidiaries		7,105,347	4,814,330
Borrowings		583,072	2,050,000
		7,744,533	6,907,752
Net current assets		14,434,183	10,536,036
Non-current liabilities			
Borrowings		7,200,000	9,183,074
Net assets		9,179,474	3,297,050
CAPITAL AND RESERVES			
Share capital	36	6,751,682	2,144,018
Retained profits	37	2,044,376	1,050,331
Proposed dividend	11(a)	383,416	102,701
Total equity		9,179,474	3,297,050

On behalf of the directors

Zhang Guiqing
Director

Wang Man Kwan, Paul
Director

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year ended 31 December 2018, capital contributions by the non-controlling shareholders of certain subsidiaries amounted to HK$61,174,000, of which HK$3,812,000 was settled by cash payment. The remaining amount of HK$57,362,000 was settled through the current accounts with the non-controlling shareholders, of which HK$45,195,000 was included in "amounts due to non-controlling interests" and HK$12,167,000 was included in "amounts due from non-controlling interests".

In addition, a subsidiary returned capital amounting to HK$68,478,000 to the non-controlling shareholder during the year ended 31 December 2018. The amount was settled through the current account with the non-controlling shareholder, which was included in "amounts due from non-controlling interests".

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings HK$'000	Guaranteed notes payable HK$'000	Amounts due to associates HK$'000	Amounts due to joint ventures HK$'000	Amounts due to non-controlling interests HK$'000	Amounts due to related companies HK$'000
At 1 January 2018	24,211,838	3,159,180	176,876	1,234,203	613,424	4,942,323
Changes from cash flows:						
Proceeds from new borrowings	11,623,346	–	–	–	–	–
Repayment of borrowings	(9,637,682)					
Net proceeds from issue of guaranteed notes	–	3,904,715	–	–	–	–
Advances received	–	–	2,159	879,364	2,528,758	3,996
Repayment of advances			(30,972)	(704,062)	(662,301)	(4,471,384)
Interest paid	(1,041,206)	(256,597)	–	–	–	(48,762)
	944,458	3,648,118	(28,813)	175,302	1,866,457	(4,516,150)
Exchange adjustment:	(666,269)	40,764	3,006	(63,634)	(101,572)	(42,979)
Other changes:						
Interest expenses	1,041,206	287,671	–	–	–	48,662
Dividend credited to the current account with associates	–	–	(124,438)	–	–	–
Contribution from non-controlling interests (note (a))	–	–	–	–	(45,195)	–
	1,041,206	287,671	(124,438)	–	(45,195)	48,662
As at 31 December 2018	25,531,233	7,135,733	26,631	1,345,871	2,333,114	431,856

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Borrowings HK$'000	Guaranteed notes payable HK$'000	Amounts due to associates HK$'000	Amounts due to joint ventures HK$'000	Amounts due to non-controlling interests HK$'000	Amounts due to related companies HK$'000
At 1 January 2017	19,973,611	3,148,508	186,832	–	886,353	8,641,033
Changes from cash flows:						
Proceeds from new borrowings	12,636,885	–	–	–	–	–
Repayment of borrowings	(8,914,795)	–	–	–	–	–
Advances received	–	–	131,536	1,196,769	–	–
Repayment of advances	–	–	(153,858)	(1,976)	(324,390)	(3,981,523)
Interest paid	(865,288)	(158,876)	(18,013)	–	(19,220)	(226,290)
	2,856,802	(158,876)	(40,335)	1,194,793	(343,610)	(4,207,813)
Exchange adjustment:	516,137	–	15,116	39,410	68,463	326,475
Other changes:						
Interest expenses	865,288	169,548	15,263	–	2,218	182,628
As at 31 December 2017	24,211,838	3,159,180	176,876	1,234,203	613,424	4,942,323

41. RETIREMENT BENEFITS SCHEMES

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme is a defined contribution retirement benefits scheme and contributions to the scheme are made based on a percentage of the employees' relevant income and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries of the Company which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognized in profit or loss of HK$44,559,000 (2017: HK$28,555,000) represent contributions paid/payable to these schemes by the Group in the year. As at 31 December 2018, no forfeited contribution under these schemes is available to reduce the contribution payable in future (2017: nil).

42. PLEDGE OF ASSETS

As at 31 December 2018, the carrying amounts of the assets pledged by the Group to secure for borrowings and banking facilities granted to the Group are analyzed as follows:

	2018 **HK$'000**	2017 HK$'000
Pledge for borrowings and banking facilities of the Group		
Owners-occupied properties (note 15)	**251,223**	394,684
Inventories of properties (note 22)	**228,945**	765,193
	480,168	1,159,877

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office premises, quarters and shopping mall operating right under operating leases arrangements. Leases of these properties are negotiated for periods ranging from six months to thirty years (2017: six months to thirty years) and rentals are fixed over the contracted period. As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**15,748**	13,841
In the second to fifth year, inclusive	**23,562**	28,704
Over five years	**16,406**	23,879
	55,716	66,424

As lessor

The Group leases out its investment properties (note 14), the shopping mall in which the Group has operating right (note 17) and certain units of inventories of properties under operating lease arrangements with leases negotiated for period ranging from one year to twenty years (2017: one year to twenty years). As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments receivable:

	2018 **HK$'000**	2017 HK$'000
Within one year	**275,372**	239,405
In the second to fifth year, inclusive	**530,289**	418,562
Over five years	**230,471**	191,777
	1,036,132	849,744

44. OTHER COMMITMENTS

As at 31 December 2018, the Group had other significant commitments as follows:

	2018 **HK$'000**	2017 HK$'000
Contracted for but not provided for in the financial statements:		
— Acquisition of land	**2,280,967**	2,159,594
— Property development	**10,356,621**	5,891,102
Authorized but not contracted for:		
— Acquisition of land	**2,294,046**	–

45. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2018, the Group had issued the following significant guarantees:

	2018 HK$'000	2017 HK$'000
Guarantees given to:		
— Banks and government agencies for mortgage loans granted to certain purchasers of the Group's properties	33,447,290	31,417,570
— Bank in respect of the banking facilities granted to a joint venture	256,793	269,168

In the opinion of the directors, if the purchasers default payment of the mortgage loans during the period of guarantee, the net realizable value of the related properties can cover the repayment of the outstanding loans together with the accrued interest thereon. In addition, as assessed by the directors, the risk of default of payment of the outstanding bank loan together with the accrued interest thereon by the joint venture is low. Accordingly, no provision has been made in the financial statements in respect of these guarantees.

(b) The Group, being a property developer in the PRC, is subject to extensive government requirements in many aspects of its property development operations, including but not limited to land acquisition and transfer, planning and construction works, etc. In the ordinary course of business, the Group has various development projects which are behind the development timelines as stipulated in the land transfer agreements or approved by the local authorities. According to the regulation "Measures for Disposal of Unused Land" and other relevant regulations, the government is empowered to levy idle land penalty and in the extreme case, confiscate the undeveloped land depending on circumstances. In addition, the delay in development may constitute default in contract terms of the land transfer agreements, of which the transferor can claim for liquidated damages.

As at 31 December 2018 and 2017, the construction works of the land parcels of certain subsidiaries in Zibo and Jiujiang, the PRC, were behind the stipulated development timelines. Accordingly, these subsidiaries are exposed to the aforementioned penalties and liquidated damages.

The directors estimated that the maximum amount of penalty and liquidated damages would not be more than approximately HK$649 million (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$3,204 million in aggregate as of 31 December 2018 (2017: HK$3,360 million).

Notwithstanding the above, the directors, having regard to their past experiences in handling similar matter and the latest local development, together with the application for extending the commencement dates of construction works submitted and communications with relevant local authorities, 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.

46. RELATED PARTY TRANSACTIONS

Same as disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties:

(a) On 28 March 2014, the Company and COLI entered into a trademark licence agreement (the "2014 Trademark Licence Agreement"), pursuant to which COLI grants a non-exclusive right to the Company, its subsidiaries and the member company as defined in the 2014 Trademark Licence Agreement, a licence to use the trademark "中海地產" (the "Trademark") in the PRC for a term commenced from 1 April 2014 and ended on 31 March 2017 (both days inclusive). The Trademark is registered in the PRC and owned by 中海地產集團有限公司, a subsidiary of COLI.

Pursuant to the 2014 Trademark Licence Agreement, the Company agrees to pay 1% of its audited annual consolidated turnover for each financial year ended 31 December 2014, 2015 and 2016 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2014 Trademark Licence Agreement. The total royalty payable under the 2014 Trademark Licence Agreement for each of the twelve-month period between 1 April 2014 and 31 March 2017 shall not exceed HK$250,000,000.

The 2014 Trademark Licence Agreement expired on 31 March 2017. On 31 March 2017, the Company and COLI entered into a new trademark licence agreement (the "2017 Trademark Licence Agreement"), pursuant to which COLI grants a non-exclusive right to the Company, its subsidiaries and the member company as defined in the 2017 Trademark Licence Agreement, a licence to use the Trademark in the PRC for a term commenced from 1 April 2017 and ending on 31 March 2020 (both days inclusive).

Pursuant to the 2017 Trademark Licence Agreement, the Company agrees to pay 1% of its audited annual consolidated turnover for each financial year ending 31 December 2017, 2018 and 2019 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2017 Trademark Licence Agreement. The total royalty payable under the 2017 Trademark Licence Agreement for each of the twelve-month period between 1 April 2017 and 31 March 2020 shall not exceed HK$200,000,000.

Royalty incurred by the Group under the aforementioned trademark licence agreements in respect of financial year ended 31 December 2018 amounted to HK$200,000,000 (2017: HK$203,537,000).

As at 31 December 2018, the royalty payable to COLI amounted to HK$200,000,000 (2017: HK$203,537,000) which was included in "Trade and other payables" in the consolidated statement of financial position. The amount due to COLI is unsecured, interest-free and repayable on demand.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) On 1 August 2014, the Group entered into tenancy agreements (the "2014 Tenancy Agreements") with 北京中海金石房地產開發有限公司 and 北京嘉益德房地產開發有限公司 for a term of three years commenced from 1 August 2014 and ended on 31 July 2017. The annual rent payable by 北京中海金石房地產開發有限公司 and 北京嘉益德房地產開發有限公司 are RMB9,327,000 and RMB4,678,000 respectively. The total rental payable under the 2014 Tenancy Agreements for each of the twelve-month period between 1 August 2014 and 31 July 2017 shall not exceed RMB14,005,000.

The 2014 Tenancy Agreements expired on 31 July 2017. On 28 July 2017, the Group entered into tenancy agreements (the "2017 Tenancy Agreements") with 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 for a term of three years commenced from 1 August 2017 and ending on 31 July 2020. The annual rent payable by 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 are RMB10,260,000 and RMB5,145,000 respectively. The total rental payable under the 2017 Tenancy Agreements for each of the twelve-month period between 1 August 2017 and 31 July 2020 shall not exceed RMB15,405,000.

For the year ended 31 December 2018, total rental income generated from the aforementioned tenancy agreements is approximately RMB14,671,000, equivalent to approximately HK$17,429,000 (2017: HK$16,090,000). As at 31 December 2018, rental income received in advance from these leases amounted to approximately RMB1,284,000, equivalent to approximately HK$1,465,000 (2017: HK$1,463,000).

(c) On 1 June 2015, the Company and China Overseas Property Holdings Limited ("COPH") entered into a framework agreement (the "Property Management Agreement") pursuant to which COPH and its subsidiaries ("COPH Group") may provide property management services to the Group. The Property Management Agreement shall take effect from 1 June 2015 for a term of three years ended on 31 May 2018 (both days inclusive). COPH was a subsidiary of COLI on 1 June 2015 and subsequently becomes a fellow subsidiary of COLI.

According to the Property Management Agreement, the annual consideration payable by the Group for property management services for the period from 1 June 2015 to 31 December 2015, each of the two years ended 31 December 2017 and the period from 1 January 2018 to 31 May 2018 shall not exceed RMB30,000,000, RMB50,000,000, RMB60,000,000 and RMB35,000,000 respectively.

For the year ended 31 December 2017, total property management services fee incurred by the Group under the Property Management Agreement was HK$48,719,000 whereas property management services paid was HK$46,112,000. As at 31 December 2017, the property management services fee payable to COPH Group amounted to HK$7,498,000 which was included in "Trade and other payables" in the consolidated statement of financial position while property management fee prepaid to COPH Group amounted to HK$3,768,000. The management fee payable by the Group to COPH Group is unsecured, interest-free and will be settled pursuant to the payment terms set out in the specific tender or property management contracts.

The Property Management Agreement was terminated upon the Prevailing Projects Framework Agreement as set out in note 46(e) becomes effective. For the year ended 31 December 2018, no management fee was incurred and paid by the Group under the Property Management Agreement.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) During the year ended 31 December 2017, certain subsidiaries of COLI which later become subsidiaries of COPH provided property management services to certain subsidiaries and total property management services fee incurred by the Group under these arrangements amounted to RMB9,554,000, equivalent to approximately HK$11,064,000.

(e) On 20 October 2017, the Company and COPH entered into a framework agreement ("New Projects Framework Agreement") pursuant to which any member of COPH Group may provide property management services and engineering services to the Group for certain property development projects in several emerging third-tier cities in the PRC acquired by the Group from COLI in an acquisition which took place in December 2016 and which are not managed by any member of COPH Group at the time when the Group and COPH entered into the New Projects Framework Agreement (the "New Projects"). The New Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020.

According to the New Projects Framework Agreement, the consideration payable by the Group for the year ending 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK$47,800,000, HK$45,900,000 and HK$25,800,000 respectively.

On 20 October 2017, the Company and COPH entered into another framework agreement ("Prevailing Projects Framework Agreement") to increase the annual caps and the scope of services under the Property Management Agreement and renew the transactions as mentioned in note 46(c), pursuant to which any member of COPH Group may provide property management services and engineering services to the Group for property development projects in the PRC, Hong Kong, Macau and other locations (excluding the New Projects). The Prevailing Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020.

According to the Prevailing Projects Framework Agreement, the consideration payable by the Group for the year ending 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK$115,600,000, HK$96,500,000 and HK$57,900,000 respectively.

For the year ended 31 December 2018, property management services and engineering services fee incurred by the Group under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement amounting to HK$13,166,000 and HK$46,011,000 respectively whereas services fee paid under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement amounting to HK$14,613,000 and HK$57,301,000 respectively.

As at 31 December 2018, property management services and engineering services fee payable to COPH Group amounted to HK$15,063,000 in aggregate, which were included in "Trade and other payables" in the consolidated statement of financial position and property management services and engineering services fee prepaid to COPH Group amounted to HK$2,489,000. The services fee payable by the Group to COPH Group are unsecured, interest-free and will be settled pursuant to the payment terms set out in the relevant agreements.

For the year ended 31 December 2017, no property management services and engineering services fee was paid or payable by the Group to COPH Group under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(f) On 24 March 2016, the Company and China State Construction International Holdings Limited ("CSC") entered into a framework agreement (the "Construction Supervision Service Agreement") pursuant to which the Group may appoint CSC and its subsidiaries (excluding subsidiary(ies) listed on any stock exchange) ("CSC Group") as construction supervisor to provide supervision and management services for the property development projects of the Group in the PRC. The Construction Supervision Service Agreement has a term of three years commenced from 1 April 2016 and ending on 31 March 2019 (both days inclusive). CSC is a fellow subsidiary of COLI.

The management fee with respect to the construction supervision service will be charged on a "cost plus" basis, which will be determined based on the total staff cost incurred by CSC Group with respect to the provision of the construction supervision service plus a margin of 18%. The management fee payable by the Group to CSC Group for the period from 1 April 2016 to 31 December 2016, each of the two years ended 31 December 2018 and the period from 1 January 2019 to 31 March 2019 shall not exceed RMB110,000,000, RMB136,000,000, RMB191,000,000 and RMB65,000,000 respectively. The management fee payable by the Group to CSC Group will be settled monthly in cash.

For the year ended 31 December 2018, total management fee incurred by the Group under the Construction Supervision Service Agreement is approximately RMB11,948,000, equivalent to approximately HK$14,194,000 (2017: HK$49,398,000) whereas management fee paid is approximately RMB10,890,000, equivalent to HK$12,937,000 (2017: HK$48,619,000). As at 31 December 2018, there was no management fee payable to CSC Group whereas as at 31 December 2017, management fee payable to CSC Group amounted to HK$1,675,000 which was included in "Trade and other payables" in the consolidated statement of financial position. The management fee payable to CSC Group by the Group is unsecured and interest-free.

(g) During the year ended 31 December 2018, 中海監理有限公司 ("China Overseas Supervision") provided construction supervision services to the Group in respect of the prevailing projects of the Group. Previously, China Overseas Supervision was a wholly-owned subsidiary of CSC. Following the completion of acquisition of the entire equity interests in China Overseas Supervision by Far East Global Group Limited ("FEG") on 26 June 2018, China Overseas Supervision becomes a wholly-owned subsidiary of FEG. FEG is a fellow subsidiary of COLI.

For the year ended 31 December 2018, total management fee charged by China Overseas Supervision against the Group (excluding those management fee incurred under the Construction Supervision Service Agreement set out in note 46(f)) amounting to RMB11,097,000, equivalent to approximately HK$13,183,000 whereas management fee paid by the Group is RMB11,296,000, equivalent to approximately HK$13,420,000.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(h) On 26 June 2018, the Company and FEG entered into a framework agreement ("COGO Framework Agreement") pursuant to which the Group agreed to engage FEG and its subsidiaries ("FEG Group") to provide project management, supervision and consultancy services for the property development projects of the Group in the PRC. The COGO Framework Agreement covers a period commenced from 1 July 2018 and ending on 30 June 2021.

According to the COGO Framework Agreement, the maximum total contract sum that may be awarded by the Group to FEG Group for the period from 1 July 2018 to 31 December 2018, each of the two years ending 31 December 2020 and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK$30 million, HK$60 million and HK$30 million respectively. The management services fee payable by the Group to FEG Group will be settled pursuant to the payment terms set out in the tender documents or specific contracts.

For the year ended 31 December 2018, no contract was awarded by the Group and no management services fee was incurred by the Group under the COGO Framework Agreement.

(i) As at 31 December 2018 and 2017, certain of the Group's borrowings and banking facilities are guaranteed by the subsidiaries of COLI.

(j) As at 31 December 2018, the Group provided corporate guarantee amounting to HK$256,793,000 (2017: HK$269,168,000) to secure for certain borrowings and banking facilities of a joint venture.

(k) For the year ended 31 December 2018, the Group received interest income from a joint venture and non-controlling interests amounting to HK$15,140,000 and HK$40,031,000 (note 7) respectively whereas it incurred interest expense amounting to HK$48,662,000 on amounts due to related companies (note 9).

For the year ended 31 December 2017, the Group received interest income from a joint venture amounting to HK$4,488,000 (note 7) whereas it incurred interest expense amounting to HK$15,263,000, HK$2,218,000 and HK$182,628,000 on amounts due to an associate, non-controlling interests and related companies respectively (note 9).

(l) In connection with the Rights Issue of the Company as detailed in note 36, the Company entered into an underwriting agreement with COLI on 7 November 2017. Pursuant to the underwriting agreement, COLI agreed to underwrite the rights shares of 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.

The Right Issue was completed on 5 February 2018 and an underwriting commission amounting to HK$43,316,000 was incurred and paid by the Group to COLI during the year ended 31 December 2018.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(m) Key management personnel remunerations include the following expenses:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	24,706	23,660
Post-employment benefits	619	50
	25,325	23,710

(n) Transactions with other state-controlled entities in the PRC

The Group is not controlled by the PRC government. However, the Group is an associated company of COLI while the ultimate holding company of COLI is CSCEC, a company controlled by the PRC government, as such, the PRC government is regarded as a related party of the Group. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities. The directors consider the transactions with those state-controlled entities are conducted on an arms' length basis.

In connection with its property development activities, other than those disclosed in notes (a) and (c) to (h) above, the Group awards construction and other works contracts to PRC entities, some of which, to the best knowledge of management, are state-controlled entities. The Group has also entered into various transactions with the PRC government departments or agencies, mainly regarding acquisition of land through tendering to those government departments or agencies. During the year ended 31 December 2018, the Group acquired certain parcels of land from the PRC government departments through public tender at an aggregate consideration of approximately HK$23,284,267,000 (2017: HK$10,888,085,000).

In addition, in the normal course of business, the Group entered into various deposits and lending transactions with banks and financial institutions which are state-controlled entities.

The Group is active in property sale and property leasing in various provinces in the PRC. The directors are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with state-controlled entities. However, the directors are of the opinion that the transactions with state-controlled entities are entered into in the normal course of business of the Group.

In addition to the above transactions and balances, details of the Group's other balances with related parties are disclosed in consolidated statement of financial position and notes 26, 27, 28 and 32.

The related party transactions in respect of items (a) to (j) and (l) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

47. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of net gearing ratio (i.e. net debt to equity). Net debt includes borrowings less restricted cash and deposits and cash and bank balances. Equity represents equity attributable to owners of the Company. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The net gearing ratios of the Group as at 31 December 2018 and 2017 were as follows:

	2018 **HK$'000**	2017 HK$'000
Borrowings	**25,531,233**	24,211,838
Guaranteed notes payable	**7,135,733**	3,159,180
Less: restricted cash and deposits	**(7,902,629)**	(7,553,007)
Less: cash and bank balances	**(25,361,554)**	(16,149,246)
Net debt	**N/A**	3,668,765
Capital represented by equity attributable to owners of the Company	**19,448,179**	13,677,142
Net gearing ratio	**N/A**	26.8%

The Group targets to maintain a net gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

48.1 Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at fair value through profit or loss*	4,467	1,974
Financial assets at fair value through other comprehensive income@	1,141	–
Financial assets at amortized cost#	36,690,209	–
Available-for-sale financial assets@	–	1,196
Loans and receivables#	–	26,181,411
Financial liabilities		
Financial liabilities at amortized cost^	46,751,075	43,489,276

* a derivative financial instrument

@ unlisted equity investments

\# including trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests and bank balances including restricted cash and deposits

^ including trade payables, other payables and accruals, amounts due to associates, joint ventures, non-controlling interests and other related companies, borrowings and guaranteed notes payable

48.2 Financial results by financial instruments

	2018 HK$'000	2017 HK$'000
Fair value gain on:		
Financial asset at fair value through profit or loss	2,493	1,974
Interest income or (expenses) on:		
Financial assets at amortized cost	394,818	–
Loans and receivables	–	178,146
Financial liabilities at amortized cost	(1,377,539)	(1,234,945)
Impairment loss on:		
Available-for-sale financial assets	–	535

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement

(a) Financial instruments not measured at fair value

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, current 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, as well as current borrowings and current guaranteed notes payable approximate their fair values.

For disclosure purpose, the fair values 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 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 counterparties.

(b) Financial instruments measured at fair value

The following table provides an analysis of financial instruments carried at fair value as at 31 December 2018 and 2017 by level of fair value hierarchy.

— Level 1: Quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: Inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement (Continued)

(b) Financial instruments measured at fair value (Continued)

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2018				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	–	4,467	–	4,467
Financial assets at fair value through other comprehensive income				
— Unlisted equity investments	–	–	1,141	1,141
	–	4,467	1,141	5,608
As at 31 December 2017				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	–	1,974	–	1,974

During the year ended 31 December 2018 and 2017, there were no transfers between levels.

The fair values of the derivative financial instrument, being an interest rate swap contract, as at 31 December 2018 and 2017 were determined with reference to the valuation carried out by Asset Appraisal Limited, an independent professional valuer. The valuation is determined as the present value of the estimated future cash flows based on observed yield curves.

The fair value of the unlisted equity investments as at 31 December 2018 was estimated by the directors using a discounted cash flow method which is a level 3 fair value measurement.

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement (Continued)

(b) Financial instruments measured at fair value (Continued)

The movements in fair value measurement within Level 3 during the year ended 31 December 2018 are as follows:

	HK$'000
Unlisted equity investments	
At 31 December 2017 under HKAS 39	–
Impact on initial adoption of HKFRS 9 (note 20)	1,196
At 1 January 2018 under HKFRS 9	1,196
Translation adjustment	(55)
At 31 December 2018	1,141

49. FINANCIAL RISK MANAGEMENT

49.1 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

49.2 Market risk

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are HK$ and RMB. The Group is exposed to currency risk arising from fluctuations on foreign currencies against the functional currencies of the group entities. Currently, the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in RMB and make payments in RMB. In addition, the Group's borrowings were mainly denominated in HK$, US$ and RMB. The directors consider that a natural hedge mechanism existed to certain extent. The Group would, however, closely monitor the volatility of the RMB exchange rate.

The financial statements of the Group is presented in HK$, being the functional currency of the Company, and thus the Group is subject to exchange risk from the volatility of RMB exchange rate against HK$ upon translation of PRC operations.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.2 Market risk (Continued)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from borrowings, guaranteed notes payable and certain balances with associates, joint ventures, non-controlling interests and other related companies. Balances arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and repayment terms of the borrowings, guaranteed notes payable and balances with associates, joint ventures, non-controlling interests and other related companies at the end of the reporting period are disclosed in notes 33, 34, 26, 27, 28 and 32 respectively.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's exposure on bank deposits is not significant as interest-bearing deposits are within short maturity periods in general.

The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group entered into an interest rate swap for a US$ denominated floating-rate bank loan. Details of this interest rate swap contract are set out in note 21.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate borrowings (including amounts due to related companies), after excluding the bank loan which is hedged by the interest rate swap contract, with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2018 **HK$'000**	2017 HK$'000
(Decrease)/Increase in profit after tax and retained profits		
+50 basis point ("bp") (2017: 50 bp)	**(6,498)**	(2,795)
–10 bp (2017: 10 bp)	**1,300**	559

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the bank borrowings and other loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities. The Group is also exposed to credit risk arising from the provision of financial guarantees.

The carrying amounts of trade and other receivables, amounts due from an associate, a joint venture, non-controlling interests, restricted cash and deposits and cash and bank balances represent the Group's maximum exposure to credit risk in respect of these items. The maximum exposure to credit risk in respect of the financial guarantees at the end of the reporting period is disclosed in note 45(a).

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with credit worthy counterparties. Credit risk on restricted cash and deposits as well as cash and bank balances (note 29) is mitigated as cash is deposited in banks and financial institutions of high credit rating. The credit and investment policies have been consistently applied and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

For the year ended 31 December 2018 and 2017, the Group did not have significant concentration of credit risk as its trade and other receivables consists of a large number of customers and debtors. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 25.

In respect of trade receivables as at 31 December 2018 and 2017, significant amount was arising from sales of properties and at the end of the reporting period, the application of mortgage loans in respect of those sales was in progress. Management expects that the customers will settle these receivables in due course once the mortgage loans are granted by the banks or the government agencies. In addition, the titles of the related properties have been retained by the banks or the government agencies. Accordingly, management considers that recoverability concerns over those receivables are remote.

The Group typically provides guarantees to banks or government agencies in connection with the customers' borrowing of mortgage loans to finance their purchase of properties (note 45(a)). If a purchaser defaults on the payment of the mortgage during the period of guarantee, the bank or government agency holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are generally secured by properties with current market price higher than the guaranteed amounts, the management considers it would recover any loss incurred arising from the guarantee provided by the Group. In addition, the Group provided guarantees to a bank for a bank loan of a joint venture. In the opinion of the management, it is not probable that the joint venture would default payment of the bank loan and accordingly, the Group's credit risk in this respect is remote.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk (Continued)

Impairment under ECL model

As disclosed in note 3.13A(ii), the Group recognizes loss allowance for ECL on debt instruments carried at amortized cost and measured at fair value through other comprehensive income. The Group applies simplified approach to measure ECL on trade receivables; and general approach to measure ECL on other receivables, amounts due from an associate, a joint venture and non-controlling interests, restricted cash and deposits and cash and bank balances. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, the Group applies the "3-stage" impairment model for ECL measurement based on change in credit risk since initial recognition as follows:

— Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.

— Stage 2: If the credit risk of the financial instrument has increased significantly since its initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.

— Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECL for financial instruments in Stage 1 are measured at an amount equivalent to 12-month ECL whereas the ECL for financial instruments in Stage 2 or Stage 3 are measured at an amount equivalent to lifetime ECL.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit risk assessment and including forward-looking information.

Having regard to industry practice, relevant regulation and government measures, as well as the background and behavior of the debtors/counterparties, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due unless the Group has reasonable and supportable information that demonstrates otherwise. In addition, the Group considers that a financial asset to be in default when: (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is more than 180 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk (Continued)

Impairment under ECL model (Continued)

At the end of each reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is considered as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the debtor;

(b) a breach of contract, such as a default or past due event;

(c) granting a concession to the debtors that the lender would not otherwise consider for economic or contractual reasons relating to the debtor's financial difficulty; or

(d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganization.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure of default. The assessment of the probability of default and loss given default is based on historical data and adjusted for forward-looking information through the use of industry trend and experienced credit judgment to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios.

49.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables including amounts due to related companies and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain prudent liquidity risk management which is to maintain sufficient cash and bank balances as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been consistently applied and are considered to have been effective in managing liquidity risk.

The following tables summarize the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on agreed scheduled repayment dates set out in the agreements or the repayment schedules agreed with the banks and other lenders.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.4 Liquidity risk (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000
As at 31 December 2018					
Non-derivatives					
Bank borrowings	24,047,543	26,144,039	5,805,753	10,635,255	9,703,031
Other loans	1,483,690	1,567,019	1,567,019	–	–
Guaranteed notes payable	7,135,733	7,623,822	3,411,806	191,344	4,020,672
Trade payables, other payables and accruals	9,946,637	9,946,637	9,946,637	–	–
Amounts due to associates	26,631	26,631	26,631	–	–
Amounts due to joint ventures	1,345,871	1,345,871	1,345,871	–	–
Amounts due to non-controlling interests	2,333,114	2,333,114	2,333,114	–	–
Amount due to related companies	431,856	439,168	350,296	88,872	–
	46,751,075	49,426,301	24,787,127	10,915,471	13,723,703
Derivatives					
Financial guarantees issued — Maximum amount guaranteed	–	33,704,083	33,704,083	–	–

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.4 Liquidity risk (Continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand or within 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000
As at 31 December 2017					
Non-derivatives					
Bank borrowings	22,417,388	24,443,030	5,204,176	2,940,083	16,298,771
Other loans	1,794,450	1,922,320	673,807	1,248,513	–
Guaranteed notes payable	3,159,180	3,338,313	158,875	3,179,438	–
Trade payables, other payables and accruals	9,151,432	9,151,432	9,151,432	–	–
Amounts due to associates	176,876	176,876	176,876	–	–
Amounts due to joint ventures	1,234,203	1,234,203	1,234,203	–	–
Amounts due to non-controlling interests	613,424	613,424	613,424	–	–
Amounts due to related companies	4,942,323	5,034,487	4,937,057	4,263	93,167
	43,489,276	45,914,085	22,149,850	7,372,297	16,391,938
Derivatives					
Financial guarantees issued					
— Maximum amount guaranteed	–	31,686,738	31,686,738	–	–

The contractual financial guarantees provided by the Group are disclosed in note 45(a). As assessed by the directors, it is not probable that the banks or government agencies would claim the Group for losses in respect of the guarantee contracts due to security in place for the mortgage loans as mentioned in note 49.3 above. In addition, having regard to the financial position of the joint venture, the directors are in the opinion that it is not probable that the joint venture will default payment of the bank loan.

50. PARTICULARS OF SUBSIDIARIES

The particulars of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Be Affluent Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Best Beauty Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Big Leader International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Bliss China Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Bliss Depot Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Capital Way Investment Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Celestial Wealth Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
China Grand (H.K.) Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
China Overseas Grand Oceans Finance II (Cayman) Limited	Cayman Islands	Ordinary	1 share of US$1 each	100%	–	Fund raising and on-lending
China Overseas Grand Oceans Finance IV (Cayman) Limited (note)	Cayman Islands	Ordinary	1 share of US$1 each	100%	–	Fund raising and on-lending
China Overseas Grand Oceans Investments Limited	Hong Kong	Ordinary	HK$1	100%	–	Investment holding
China Overseas Grand Oceans Property Group Company Limited	PRC^	Paid up capital	RMB133,000,000	–	100%	Investment holding and property development
China Overseas Yin Chuan Investments Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Citirich International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
City Glory Holdings Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
East Pacific (H.K.) Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Elite Way Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Ever United Development Limited	Hong Kong	Ordinary	HK$1	100%	–	Financing and investment
Flourish Ray Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Global East Development Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Grand Marine Investment Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Grand Success Group Holdings Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Grandwide (H.K.) Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Grand Will Asia Pacific Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Grandca International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Greatbo (H.K.) Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Great Kind Development Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Green Fortune Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Guan Hai Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	100%	–	Investment holding
Hai Jian International Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Han Yang Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Hero Path Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
High Faith Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Hongbo Global Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Hong Bao Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Jet Pacific Investment Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Long Capital Investment Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Longwide Holdings Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Main Lucky International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Maple Moon Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Marine Key Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Max Pacific Investment Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Moonstar Development Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Ocean Continent Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Ocean Ease Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Ocean Empire Developments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Oceanic Roc Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Pacific King Holdings Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Pandue Investments Limited	British Virgin Islands	Ordinary	100 shares of US$1 each	100%	–	Investment holding
Precious Joy Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Qiangfa Holdings Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Rainbow Hero Investments Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Sea Coral Enterprises Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Sino Global Development Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Sure Shine International Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Talent Race Holdings Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Top Wonder International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Unibo Holdings Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
Wan Chang International Limited	British Virgin Islands	Ordinary	1 share of US$1 each	–	100%	Investment holding
Well Great (H.K.) Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
World Dynasty Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
World United International Limited	Hong Kong	Ordinary	HK$1	–	100%	Investment holding
上海中海宏洋置業有限公司	PRC#	Paid up capital	RMB15,000,000	–	100%	Investment holding
中海宏洋地產(合肥)有限公司	PRC^	Paid up capital	RMB580,000,000	–	100%	Property development
中海宏洋地產(銀川)有限公司	PRC*	Paid up capital	RMB840,000,000	–	85%	Property development
中海宏洋地產(贛州)有限公司	PRC*	Paid up capital	RMB100,000,000 (2017: RMB600,000,000)	–	88%	Property development
中海宏洋地產(揚州)有限公司	PRC^	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋地產(常州)有限公司	PRC^	Paid up capital	RMB600,000,000	–	100%	Property development
中海宏洋地產(鹽城)有限公司	PRC^	Paid up capital	RMB938,839,800 (2017: RMB798,218,000)	–	100%	Property development
中海宏洋置地(常州)有限公司	PRC^	Paid up capital	RMB50,000,000 (2017: RMB700,000,000)	–	100%	Property development

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
中海宏洋置地(鹽城)有限公司	PRC^	Paid up capital	RMB350,000,000	–	100%	Property development
中海宏洋置業(合肥)有限公司	PRC^	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋置業(常州)有限公司	PRC^	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋(南通)投資開發有限公司	PRC^	Paid up capital	RMB600,000,000	–	100%	Property development
中海海宏(南通)投資開發有限公司	PRC^	Paid up capital	RMB50,000,000 (2017: RMB500,000,000)	–	100%	Property development
北京中海宏洋地產有限公司	PRC#	Paid up capital	RMB28,000,000	–	100%	Investment holding and property development
北京中京藝苑置業有限公司	PRC#	Paid up capital	RMB30,000,000	–	100%	Property investment and property leasing
北京華世柏利房地產開發有限公司	PRC#	Paid up capital	RMB60,000,000	–	90%	Property development
北京快樂城堡購物中心有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property leasing
北京通惠房地產開發有限責任公司	PRC#	Paid up capital	RMB100,000,000	–	100%	Property development
呼和浩特光大環城建設開發有限公司	PRC#	Paid up capital	RMB120,000,000	–	80%	Property development
呼和浩特市中海宏洋地產有限公司	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development
呼和浩特市榮城房地產開發有限公司	PRC#	Paid up capital	RMB15,000,000	–	100%	Property development
南寧中海宏洋房地產有限公司	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
深圳市建地投資有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Investment holding
廣州中海橡園房地產發展有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
廣州市光大花園房地產開發有限公司	PRC*	Paid up capital	RMB800,000,000	–	100%	Property development
廣州新都房地產發展有限公司	PRC#	Paid up capital	RMB10,000,000	–	90%	Property development
蘭州中海宏洋房地產開發有限公司	PRC#	Paid up capital	RMB1,000,000,000	–	100%	Property development
吉林市中海宏洋房地產開發有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市怡恒偉業房地產開發有限公司	PRC#	Paid up capital	RMB200,000,000	–	70%	Property development
吉林市中海海華房地產開發有限公司	PRC#	Paid up capital	RMB50,000,000	–	85%	Property development
桂林建禹地產有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
合肥中海新華房地產開發有限公司	PRC#	Paid up capital	RMB20,000,000	–	60%	Property development
合肥中海榮祥房地產開發有限公司	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
南寧中海宏洋置業有限公司	PRC^	Paid up capital	RMB1,700,000,000	–	100%	Property development
紹興中海宏洋地產有限公司	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中海宏洋置業有限公司	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中潤置業有限公司	PRC^	Paid up capital	RMB758,000,000	–	100%	Property development
汕頭市中海宏洋地產有限公司	PRC#	Paid up capital	RMB230,000,000	–	100%	Property development
汕頭市中海宏洋置業有限公司	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋地產(徐州)有限公司	PRC^	Paid up capital	RMB126,150,000	–	100%	Property development
中海宏洋(鹽城)房地產開發有限公司	PRC*	Paid up capital	RMB344,375,000	–	100%	Property development
中海宏洋地產(黃山)有限公司	PRC*	Paid up capital	US$2,500,000	–	55%	Property development
中海潤洋置業(揚州)有限公司	PRC^	Paid up capital	US$60,000,000	–	100%	Property development
中海宏洋(深圳)投資有限公司	PRC^	Paid up capital	RMB244,000,000	–	100%	Property development
中海瘦西湖房地產揚州有限公司	PRC#	Paid up capital	RMB240,000,000	–	70%	Property development
揚州市江都區信泰置業有限公司	PRC#	Paid up capital	RMB185,600,000	–	100%	Property development
中海宏洋地產汕頭投資有限公司	PRC#	Paid up capital	RMB370,000,000	–	100%	Property development
汕頭中海宏洋南濱大酒店有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Hotel operation
汕頭中信南烽房地產有限公司	PRC#	Paid up capital	RMB20,000,000	–	51%	Property development
汕頭市金平區中信房產開發有限公司	PRC#	Paid up capital	RMB10,000,000	–	70%	Property development
中海宏洋惠州控股有限公司	PRC#	Paid up capital	RMB200,000,000	–	100%	Property development
惠州市中海宏洋地產有限公司	PRC#	Paid up capital	RMB200,000,000	–	100%	Property development
中海宏洋惠州城市建設開發有限公司	PRC#	Paid up capital	RMB130,000,000	–	100%	Property development
惠州盈通投資有限公司	PRC#	Paid up capital	RMB60,000,000	–	100%	Property development
中海宏洋惠州湯泉開發有限公司 (Formerly known as 中海宏洋惠州湯泉旅遊度假村有限公司)	PRC#	Paid up capital	RMB60,000,000	–	100%	Hotel operation

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
南昌宏洋地產有限公司	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
中海宏洋廬山西海(九江)投資有限公司	PRC#	Paid up capital	RMB800,000,000	–	100%	Property development
九江市深水灣投資有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
九江市桃花里投資有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
九江市溪谷投資有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
九江市納帕谷投資有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
淄博中海海頤置業有限公司	PRC^	Paid up capital	RMB266,360,000	–	100%	Property development
淄博中海海悦置業有限公司	PRC^	Paid up capital	RMB220,369,600	–	100%	Property development
淄博中海海昌置業有限公司	PRC^	Paid up capital	RMB206,571,410	–	100%	Property development
中海淄博置業有限公司	PRC^	Paid up capital	HK$770,000,000	–	100%	Property development
濰坊中海興業房地產有限公司	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋置業(徐州)有限公司	PRC#	Paid up capital	RMB60,000,000 (2017: nil)	–	34%	Property development
西寧中海宏洋房地產開發有限公司	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
贛州中海地產有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
中海海華南通地產有限公司	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
合肥中海宏洋海東房地產開發有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
合肥中海宏洋海創房地產開發有限公司	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
揚州海龍置業有限公司	PRC#	Paid up capital	RMB50,000,000 (2017: nil)	–	100%	Property development
揚州海富置業有限公司	PRC#	Paid up capital	RMB50,000,000 (2017: nil)	–	100%	Property development
包頭市中海宏洋地產有限公司	PRC#	Paid up capital	RMB10,000,000	–	60%	Property development
蘭州中海海富房地產開發有限公司	PRC#	Paid up capital	RMB10,000,000 (2017: nil)	–	100%	Property development
包頭市宏洋海富地產有限公司 (note)	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
贛州中海海華房地產有限公司 (note)	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
鹽城潤洋置業有限公司 (note)	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
南通市華璽房地產有限公司 (note)	PRC#	Paid up capital	RMB20,000,000	–	30%	Property development
南通市中海海富房地產開發有限公司 (note)	PRC#	Paid up capital	RMB20,000,000	–	100%	Property development
吉林市中海海富房地產開發有限公司 (note)	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市中海海悦房地產開發有限公司 (note)	PRC#	Paid up capital	RMB10,000,000	–	100%	Property development
銀川中海海華置業有限公司 (note)	PRC#	Paid up capital	–	–	100%	Property development
柳州中海宏洋房地產有限公司 (note)	PRC#	Paid up capital	RMB20,000,000	–	70%	Property development
蘭州中海環宇商業運營管理有限公司 (note)	PRC#	Paid up capital	–	–	100%	Provision of property management services
濟寧中海宏洋地產有限公司 (note)	PRC#	Paid up capital	–	–	100%	Property development
合肥中海宏洋海悦房地產開發有限公司 (note)	PRC#	Paid up capital	RMB50,000,000	–	100%	Property development

Note:

These subsidiaries were newly established or invested during the year ended 31 December 2018.

^ The companies are incorporated in the PRC as wholly-foreign-owned enterprises.

* The companies are incorporated in the PRC as sino-foreign equity joint ventures.

The companies are incorporated in the PRC as limited liability companies.

None of the subsidiaries had any debt securities in issue at the end of the reporting period except for COGO Finance II and COGO Finance IV which had issued 2014 Guaranteed Notes and 2018 Guaranteed Notes as set out in note 34. None of these guaranteed notes were held by the Group.

51. PARTICULARS OF ASSOCIATES

The particulars of the associates as at 31 December 2018 are as follows:

Name of associates	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
中信房地產汕頭華鑫有限公司	PRC#	Paid up capital	RMB10,000,000	–	30%	Property development
中信房地產汕頭金城有限公司	PRC#	Paid up capital	RMB10,000,000	–	45%	Property development
汕頭市中信濱河房地產有限公司	PRC#	Paid up capital	RMB10,000,000	–	45%	Property development

\# The companies are incorporated in the PRC as limited liability companies.

52. PARTICULARS OF JOINT VENTURES

The particulars of the joint ventures as at 31 December 2018 are as follows:

Name of joint ventures	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
上海金鶴數碼科技發展有限公司	PRC *	Paid up capital	US$2,400,000	–	65%	Property investment and property leasing
中海宏洋海富(合肥)房地產開發有限公司	PRC *	Paid up capital	RMB550,000,000	–	45%	Property development
汕頭中海凱旋置業有限公司	PRC #	Paid up capital	RMB102,040,816	–	51%	Property development

* The companies are incorporated in the PRC as sino-foreign equity joint ventures.

\# The company is incorporated in the PRC as limited liability company.

Five Year Financial Summary

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**25,571,306**	20,277,831	17,093,485	16,613,887	13,981,328
Profit before income tax	**6,342,551**	3,182,151	2,114,551	1,720,733	2,668,474
Income tax expense	**(3,841,015)**	(1,920,417)	(1,179,996)	(798,894)	(1,222,494)
Profit for the year	**2,501,536**	1,261,734	934,555	921,839	1,445,980
Profit/(Loss) for the year attributable to:					
Owners of the Company	**2,427,326**	1,271,398	900,243	851,196	1,267,402
Non-controlling interests	**74,210**	(9,664)	34,312	70,643	178,578
	2,501,536	1,261,734	934,555	921,839	1,445,980

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**118,269,274**	95,323,746	81,353,715	55,796,620	55,308,266
Total liabilities	**(97,990,692)**	(80,860,732)	(70,168,415)	(43,986,783)	(42,335,897)
	20,278,582	14,463,014	11,185,300	11,809,837	12,972,369
Equity attributable to owners of the Company	**19,448,179**	13,677,142	10,421,927	11,172,751	12,301,255
Non-controlling interests	**830,403**	785,872	763,373	637,086	671,114
	20,278,582	14,463,014	11,185,300	11,809,837	12,972,369

Particulars of Major Properties & Property Interests

(A) PROPERTY HELD FOR OWN USE

Name/Location	Category	Approximate GFA (sq.m.)	Attributable Interest	Lease Term
China Overseas International Center Room 05–08, 23F, No. 1 Building, No. 28 Pinganlixi Avenue, Xicheng District, Beijing City, the PRC	Office	1,128	100%	Medium
2F, 3F, 3AF and 23F, CITIC City Plaza 1093 Shennan Zhong Road, Futian District, Shenzhen, Guangdong, the PRC	Office	6,603	100%	Medium
18F and 19F, CITIC City Plaza 2 Wenming Yi Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Office	3,065	100%	Medium

(B) PROPERTY HELD FOR INVESTMENT

Name/Location	Category	Approximate GFA (sq.m.)	Attributable Interest	Lease Term
Office units, No. 1 Building, China Overseas International Center No. 28 Pinganlixi Avenue, Xicheng District, Beijing City, the PRC	Office	39,795	100%	Medium
China Overseas Building (No. 9 Office Building) No. 139 Jilin Street, Jilin City, Jilin Province, the PRC	Office	3,478	100%	Medium
CITIC Building (Room 102 and 1502) Jinsha East Road, Longhu District, Shantou, Guangdong Province, the PRC	Office	278	100%	Medium
Jin Xin Building (Room 204, 207 and 208) Jinsha Road, Longhu District, Shantou, Guangdong Province, the PRC	Office	1,326	100%	Medium

(C) PROPERTY HELD AS INVENTORIES

(I) Properties Under Development

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
The Aqua South of Xinhua Road, East of Changtai Road, Gangzha District, Nantong, the PRC	Residential	34,500	128,900	100%	Superstructure in progress	2013.01	1st half 2019
The Phoenix West of Fenghuang Road, North of Zhongwu Avenue, Tianning District, Changzhou, the PRC	Residential/ Commercial	31,200	113,000	100%	Superstructure in progress	2013.04	1st half 2021
Huizhou Tangquan 298 Huizhou Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	224,200	225,000	100%	Superstructure in progress	2014.05	1st half 2020
Yangzhou Jiajing No. 67, Shangfangsi Road Yangzhou, Jiangsu Province, the PRC	Residential/ Commercial	38,700	107,600	70%	Superstructure in progress	2014.09	2nd half 2019
Huating West of Chengxi Avenue, Chaoyang District, Shantou, Guangdong Province, the PRC	Residential	60,400	153,600	51%	Superstructure in progress	2015.01	1st half 2019
China Overseas Plaza Anning District, Lanzhou, the PRC	Residential/ Commercial	60,600	319,300	100%	Superstructure in progress	2016.03	2nd half 2020
International Community Zhanggong District, Ganzhou, the PRC	Residential/ Commercial	71,600	230,500	88%	Superstructure in progress	2016.10	1st half 2019
La Cite Haojiang District, Shantou, Guangdong Province, the PRC	Residential/ Commercial	141,100	720,700	100%	Superstructure in progress	2016.11	2nd half 2020
Da Guan Tian Xia No. 5716, Dongfang Road, Gaoxin District, Weifang, Shandong Province, the PRC	Residential/ Commercial	183,400	728,600	100%	Superstructure in progress	2017.02	2nd half 2020
Harbour City Xuri Yi Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	100,400	359,900	100%	Superstructure in progress	2017.03	2nd half 2019
The Glorious North of Lanhai Road, East of Shengli Road, Yancheng, Jiangsu, the PRC	Residential/ Commercial	80,600	244,100	100%	Superstructure in progress	2017.03	2nd half 2019
Triumph Town No. 7, Cuichu Forth Road, San Dong Town, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	60,700	180,100	100%	Superstructure in progress	2017.04	2nd half 2019
Dynasty Court Anning District, Lanzhou, the PRC	Residential/ Commercial	22,700	108,800	100%	Superstructure in progress	2017.04	2nd half 2019
Glory Manor North of Pujiang Road, West of Long Chuan Nan Road, Yangzhou, Jiangsu Province, the PRC	Residential/ Commercial	77,300	254,000	100%	Superstructure in progress	2017.05	1st half 2020

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(I) Properties Under Development (Continued)

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
Coastal Palace West of Woniushan Road, North of Xuxiao Highway, Quanshan District, Xuzhou, the PRC	Residential	30,000	89,000	100%	Superstructure in progress	2017.06	1st half 2020
International Community No. 1 Tainshiling Road, Xingning District, Nanning, the PRC	Residential/ Commercial	202,900	810,500	100%	Superstructure in progress	2017.07	1st half 2019
Coli City Feidong County, Hefei, the PRC	Residential	154,300	425,600	100%	Superstructure in progress	2017.09	2nd half 2019
International Community Yishan East Road, Fengman District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	206,300	389,300	85%	Superstructure in progress	2017.09	2nd half 2020
International Community Yishan East Road, Fengman District, Jilin City, Jilin Province, the PRC	Commercial	13,000	66,200	100%	Superstructure in progress	2017.09	1st half 2020
International Community South of Jinfeng Eighth Street, East of Zhengyuan South Street, Jinfeng District, Yinchuan, Ningxia Hui Autonomous Region, the PRC	Residential/ Commercial	366,400	1,026,900	85%	Superstructure in progress	2017.09	2nd half 2022
Central Mansion West of Xiaoxi Road, Chongchuan District, Nantong, the PRC	Residential	94,000	192,800	100%	Superstructure in progress	2017.10	2nd half 2020
One Riverside Park (previously named as "Zhangjiang New District Project 2") Zhanggong District, Ganzhou, the PRC	Residential/ Commercial	64,600	197,900	100%	Superstructure in progress	2017.10	1st half 2019
City Plaza No. 7 Jiangbei Zone, Huizhou, Guangdong Province, the PRC	Commercial	36,800	228,000	100%	Superstructure in progress	2018.01	2nd half 2021
The Paragon (previously named as "Chengnan New District Project") East of Daizhuang Road, Chengnan New District, Yancheng, Jiangsu, the PRC	Residential/ Commercial	51,800	144,100	100%	Superstructure in progress	2018.01	2nd half 2019
Grand Polis (previously named as "Guangling District Project ") West of Jiliang Road, North of Zhuxi Road, Yangzhou, Jiangsu Province, the PRC	Residential	116,900	295,400	100%	Superstructure in progress	2018.01	2nd half 2020
The Cullinan (previously named as "Zhangjiang New District Project 1") Zhanggong District, Ganzhou, the PRC	Residential/ Commercial	75,800	187,200	100%	Superstructure in progress	2018.02	1st half 2020
Times Metropolis South of Guanchao Road, East of Taiping Road, Chongchuan District, Nantong, the PRC	Residential/ Commercial	47,200	138,100	30%	Superstructure in progress	2018.03	2nd half 2020

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(I) Properties Under Development (Continued)

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
Eternal Treasure (previously named as "Hanjiang District Project") South of Fumin Road, East of Dujiang South Road, Yangzhou, Jiangsu Province, the PRC	Residential	100,000	249,200	100%	Superstructure in progress	2018.03	1st half 2020
Platinum Mansion (previously named as "Tianning District Project") North of Guanghua Road, East of Lingxi Road, Tianning District, Changzhou, the PRC	Residential/ Commercial	62,500	184,300	100%	Superstructure in progress	2018.04	1st half 2020
Glorioushire (previously named as "Chengbei District Project") Junction of Menyuan Road and Haihu Avenue, Chengbai District, Xining, Qinghai Province, the PRC	Residential	182,200	636,000	100%	Superstructure in progress	2018.04	2nd half 2021
The Riverside (previously named as "Jingkai District Project") Jingkai District, Ganzhou, the PRC	Residential/ Commercial	47,900	132,900	100%	Superstructure in progress	2018.06	1st half 2020
Xindoushi District Project #1 West of Jingjiu Road, North of Qingsha Road, Baotou, Inner Mongolia Autonomous Region, PRC	Residential/ Commercial	166,100	461,500	60%	Superstructure in progress	2018.07	1st half 2021
Shushan District Project #1 Shushan District, Hefei, the PRC	Residential	53,900	95,900	100%	Superstructure in progress	2018.09	2nd half 2020
Patrimonial Mansion East of Sanhuan West Road, Gulou District, Xuzhou, the PRC	Residential	81,200	177,600	34%	Superstructure in progress	2018.09	2nd half 2020
Treasure Mansion East of Sanhuan West Road, Gulou District, Xuzhou, the PRC	Residential	100,000	218,300	34%	Superstructure in progress	2018.09	1st half 2020
Glory Mansion East of Kangju Road, Chengnan New District, Yancheng, Jiangsu, the PRC	Residential	102,900	277,100	100%	Superstructure in progress	2018.10	1st half 2021
Shushan District Project #2 Shushan District, Hefei, the PRC	Residential	62,900	109,700	100%	Superstructure in progress	2018.12	2nd half 2020
Huicheng District #1 Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	29,600	116,700	100%	Superstructure in progress	2018.12	1st half 2021
Rencheng District Project West of Dianhua Road, Jining, Shandong Province, the PRC	Residential/ Commercial	189,700	423,600	100%	Superstructure in progress	2018.12	2nd half 2021
Yufeng District Project No. 38, Jianlan Road, Yufeng District, Liuzhou, Guangxi Province, the PRC	Residential/ Commercial	94,700	269,600	70%	Superstructure in progress	2018.12	1st half 2022

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(II) Land held for Future Development

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion
Xindoushi District Project #2 South of Shahe West Street, Baotou, Inner Mongolia Autonomous Region, the PRC	Residential/ Commercial	53,700	116,600	100%	Land under development
Jingkai District Project Jingkai District, Ganzhou, the PRC	Residential/ Commercial	71,000	217,000	100%	Land under development
Baiyan Technology Park District Project Feixi County, Hefei, the PRC	Residential	83,100	211,200	100%	Land under development
Dragon Cove South of Erhuan Road, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC	Residential/ Commercial	80,400	249,800	100%	Land under development
Tai Ping Guan Zhi Taiping Lake Town, Huangshan District, Anhui Province, the PRC	Residential/ Commercial	415,300	249,500	55%	Land under development
Huicheng District #2 Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	52,900	245,500	100%	Land under development
Changyi District Project #1 Leju Road, Changyi District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	48,600	136,200	100%	Land under development
Changyi District Project #2 Leju Road, Changyi District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	11,800	23,700	100%	Land under development
Changyi District Project #3 Leju Road, Changyi District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	25,900	75,500	100%	Land under development
Changyi District Project #4 Leju Road, Changyi District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	34,700	112,000	100%	Land under development

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(II) Land held for Future Development (Continued)

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion
Chuanying District Project North of Wusong West Road, Chuanying District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	63,900	156,100	100%	Land under development
Lushan Xihai Jinkou Tourist Town, Jiujiang, Jiangxi Province, the PRC	Residential/ Commercial	2,086,500	1,887,900	100%	Land under development
Qilihe District Project Qilihe District, Lanzhou, the PRC	Residential/ Commercial	78,400	325,300	100%	Land under development
Qingxiu District Project #1 North of Shangzhou Road, East of Xianhu Avenue, Qingxiu District, Nanning, the PRC	Residential	182,100	283,100	100%	Land under development
Qingxiu District Project #2 North of Shangzhou Road, East of Xianhu Avenue, Qingxiu District, Nanning, the PRC	Residential	30,400	46,500	100%	Land under development
Kaifa District Project North of Yuanxing Road, East of Xinkai North Road, Yangzhou, Jiangsu Province, the PRC	Residential	56,900	182,200	100%	Land under development
Longhu Sands Project Hepu Longhutan, Haojiang District, Shantou, Guangdong Province, the PRC	Residential	785,100	1,424,100	100%	Land under development
Da Guan Tian Xia No. 5716, Dongfang Road, Gaoxin District, Weifang, Shandong Province, the PRC	Residential/ Commercial	269,500	1,092,600	100%	Land under development
Hanjiang District Project #1 North of Beicheng Road, West of Wudong Road, Yangzhou, Jiangsu Province, the PRC	Residential	101,600	222,500	100%	Land under development

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(II) Land held for Future Development (Continued)

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion
Hanjiang District Project #2 North of Kaifa Road, West of Hongda Road, Yangzhou, Jiangsu Province, the PRC	Residential	72,800	188,300	100%	Land under development
International Community North of Shiliu Road, South of Liu Pan Mountain Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential/ Commercial	442,400	1,027,100	85%	Land under development
Jinfeng District Project East of Mancheng Street, North of Helan Mountain Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential	198,600	339,000	100%	Land under development
Lakeside Style Town Wenchang Lake Tourist Town, Zibo, Shandong Province, the PRC	Residential	470,400	857,900	100%	Land under development

(III) Completed Properties held for Sale/Occupation

Name/Location	Category	Approximate Contracted area (sq.m.) (excluding Car Park)	Attributable Interest
Maple Palace No. 54, Zhuanchang Hutong, Chaoyang District, Beijing, the PRC	Residential/ Commercial	37,175	100%
Dragon Bay South of Huanghe Road, Xinbei District, Changzhou City, the PRC	Residential/ Commercial	15,227	100%
The Azure East of Xingan South Road, Hohhot, Inner Mongolia Autonomous Region, the PRC	Residential/ Commercial	16,830	100%

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(III) Completed Properties held for Sale/Occupation (Continued)

Name/Location	Category	Approximate Contracted area (sq.m.) (excluding Car Park)	Attributable Interest
Left Bank West of Fu Bilie Road, North of Yinhe North Road, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC	Commercial	20,721	100%
Triumph Town No. 7, Cuichu Forth Road, San Dong Town, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	25,299	100%
Harbour City Xuri Yi Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/ Commercial	41,484	100%
Huizhou Tangquan 298 Huizhou Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential	24,490	100%
International Community Yishan East Road, Fengman District, Jilin City, Jilin Province, the PRC	Residential/ Commercial	32,928	85%
Lushan Xihai Jinkou Tourist Town, Jiujiang, Jiangxi Province, the PRC	Residential	72,536	100%
Royal Lakefront No. 6, Xinji Road, Gaoxin District, Nanning, the PRC	Residential	16,727	100%
International Community No. 28 Jinping Road, Xingning District, Nanning, the PRC	Residential/ Commercial	40,436	100%
Huating West of Chengxi Avenue, Chaoyang District, Shantou, Guangdong Province, the PRC	Residential	57,221	51%

(C) PROPERTY HELD AS INVENTORIES (CONTINUED)

(III) Completed Properties held for Sale/Occupation (Continued)

Name/Location	Category	Approximate Contracted area (sq.m.) (excluding Car Park)	Attributable Interest
Golden Coast Hepu Longhutan, Haojiang District, Shantou, Guangdong Province, the PRC	Residential/ Commercial	22,498	100%
Da Guan Tian Xia No. 5716, Dongfang Road, Gaoxin District, Weifang, Shandong Province, the PRC	Residential/ Commercial	14,950	100%
Yangzhou Jinyuan No. 8, Hanjiang North Road, Yangzhou, Jiangsu Province, the PRC	Residential	17,751	100%
International Community North of Liu Pan Mountain Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential/ Commercial	56,138	85%
Lakeside Style Town Wenchang Lake Tourist Town, Zibo, Shandong Province, the PRC	Residential	104,657	100%

(D) PROPERTY HELD UNDER JOINT VENTURE

(I) PROPERTY HELD FOR INVESTMENT

Name/Location	Category	Approximate GFA (sq.m.)	Attributable Interest	Lease Term
China Overseas Jinhe Information Technology Park No. 10, Lane 198, Zhangheng Road, Shanghai Zhangjiang Hi-tech Park, Pudong District, Shanghai City, the PRC	Office/Car Park	16,381	65%	Medium

(D) PROPERTY HELD UNDER JOINT VENTURE (CONTINUED)

(II) PROPERTY HELD AS INVENTORIES — Properties Under Development

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
Central Mansion Baohe District, Hefei, the PRC	Residential/ Commercial	16,700	34,400	45%	Superstructure in progress	2016.04	1st half 2020
The Arch Xin Jin Pian District, East Coast New Town, Shantou, the PRC	Residential	56,000	218,500	51%	Superstructure in progress	2016.11	1st half 2020

(III) PROPERTY HELD AS INVENTORIES — Completed Properties held for Sale/Occupation

Name/Location	Category	Approximate Contracted area (sq.m.) (excluding Car Park)	Attributable Interest
Central Mansion Baohe District, Hefei, the PRC	Residential/ Commercial	8,387	45%

(E) PROPERTY HELD UNDER ASSOCIATE

PROPERTY HELD AS INVENTORIES — Completed Properties held for Sale/Occupation

Name/Location	Category	Approximate Contracted area (sq.m.) (excluding Car Park)	Attributable Interest
Binjiang Xian Garden 10 Huti Road, Shantou, Guangdong Province, the PRC	Residential	10,323	45%

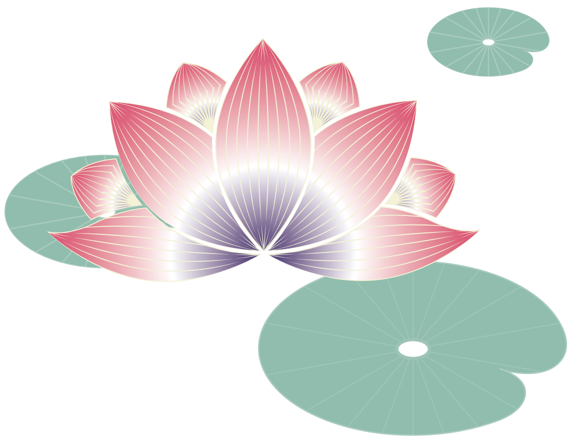
Glossary

2019 Guaranteed Notes	the US$400 million 5.125% guaranteed notes due 2019 issued by the Group and guaranteed by the Company
2021 Guaranteed Notes	the US$500 million 4.875% guaranteed notes due 2021 issued by the Group and guaranteed by the Company
Board	the board of Directors
CG Code	Corporate Governance Code in Appendix 14 to the Listing Rules
COHL	China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability and a controlling shareholder of COLI
COLI	China Overseas Land & Investment Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 688), being a controlling shareholder of the Company
COPH	China Overseas Property Holdings Limited, a COHL's subsidiary incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2669)
Companies Ordinance	Companies Ordinance, Chapter 622 of the Laws of Hong Kong
Company	China Overseas Grand Oceans Group Limited (stock code: 81), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange
Company Secretary	the company secretary of the Company
CPI	consumer price index
CSC	China State Construction International Holdings Limited, a COHL's subsidiary incorporated in Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3311)
CSCEC	中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation), a state-owned corporation organized and existing under the laws of the PRC, which is the holding company of CSCECL
CSCECL	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company incorporated in the PRC which is an intermediate holding company of COLI

CSCECL Group	CSCECL and its subsidiaries from time to time
Directors	the director(s) of the Company
GDP	gross domestic product
GFA	gross floor area
Group	the Company and its subsidiaries from time to time
HKFRSs	Hong Kong Financial Reporting Standards (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
PRC	the People's Republic of China
Saleable GFA	saleable gross floor area
Share(s)	the ordinary share(s) of the Company
SFO	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
sq. m.	square meter
Stock Exchange	The Stock Exchange of Hong Kong Limited
US	the United States of America
%	per cent.

Note: This section is not applicable to the section "Independent Auditor's Report" and the consolidated financial statements of the Group set out on pages 68 to 187 of this annual report.

* English or Chinese translations are for identification only (as the case may be).



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