GDH 粵海

粵海投資有限公司

GUANGDONG INVESTMENT LIMITED

Stock Code : 00270

2018 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

as at 29 March 2019

Board of Directors

Executive Directors

Mr. HUANG Xiaofeng *(Chairman)*
Mr. WEN Yinheng *(Managing Director)*
Mrs. HO LAM Lai Ping, Theresa *(Company Secretary)*
Mr. TSANG Hon Nam *(Chief Financial Officer)*

Non-Executive Directors

Mr. CAI Yong
Mr. ZHANG Hui
Ms. ZHAO Chunxiao
Mr. LAN Runing
Mr. LI Wai Keung

Independent Non-Executive Directors

Dr. CHAN Cho Chak, John, *GBS, JP*
Dr. the Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP*
Mr. FUNG Daniel Richard, *SBS, QC, SC, JP*
Dr. the Honourable CHENG Mo Chi, Moses, *GBM, GBS, OBE, JP*
Mr. WU Ting Yuk, Anthony,
Standing Committee Member of CPPCC National Committee, GBS, JP

Audit Committee

Dr. the Honourable LI Kwok Po, David
(Committee Chairman)
Dr. CHAN Cho Chak, John
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Remuneration Committee

Dr. CHAN Cho Chak, John *(Committee Chairman)*
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Nomination Committee

Mr. HUANG Xiaofeng *(Committee Chairman)*
Dr. CHAN Cho Chak, John
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Company Secretary

Mrs. HO LAM Lai Ping, Theresa

Auditor

Ernst & Young

Principal Bankers

Bank of China (Hong Kong) Limited
China CITIC Bank, Guangzhou Branch
China Merchants Bank
Chong Hing Bank
Dah Sing Bank
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China, Shenzhen Branch
Malayan Banking Berhad
OCBC Wing Hang Bank Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

28th and 29th Floors
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone	:	(852) 2860 4368
Facsimile	:	(852) 2528 4386
Email	:	ir@gdi.com.hk
Website	:	http://www.gdi.com.hk

Share Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Customer Service Hotline: (852) 2980 1333

Share Information

Place of Listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	00270
Board Lot	2,000 shares
Financial Year End	31 December

Shareholders' Calendar

Annual General Meeting
17 June 2019 3:00 p.m.

Final Dividend
37.5 HK cents per ordinary share,
payable on or about 26 July 2019

Last Share Registration Date

For attending Annual General Meeting	11 June 2019, by 4:30 p.m.
For entitlement to Final Dividend	20 June 2019, by 4:30 p.m.

Closure of Register of Members

Final Dividend	21 June 2019

THE GROUP'S PRINCIPAL BUSINESSES

29 March 2019

Water Resources

96.04% GH Water Supply (Holdings) Limited

99% Guangdong Yue Gang Water Supply Company Limited

48% Yangjiang Guangdong Qingyuan Huanbao Co., Ltd.▲

51% Gaozhou Guangdong Water Company Limited▲

55% Enshi Guangdong Zhengyuan Water Company Limited▲

69.5% Yunfu Guangdong Water Company Limited▲

76.2% Hainan Danzhou Guangdong Water Company Limited▲

95% Yangshan Guangdong Huanbao Co., Ltd.▲

100% Guangdong Water Group (H.K.) Limited

30% Foundation Gang-Wu (Changzhou) Water Supply Co., Ltd.

43.86% Dongguan Qingxi Guangdong Water Co., Ltd.▲

49% Guangzhou Nansha GDH Water Co., Ltd.▲

49% Shantou Guangdong Water Company Limited▲

63.07% Xuyi Guangdong Water Company Limited▲

70% Hainan Danzhou Tap Water Company Limited▲

70% Meizhou Guangdong Water Co., Ltd.▲

70% Suixi Guangdong Water Company Limited▲

70% Fengshun Guangdong Water Co., Ltd.▲

80% Shanwei Yuehai Huanbao Co., Ltd.▲

85.8% Shaoguan Guangdong Luyuan Huanbao Co., Ltd.

90% Liupanshui Guangdong Huanbao Co., Ltd.

90.1% Dongguan Changping Jinsheng Water Co., Ltd.▲

90.1% Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲

97% Dapu Guangdong Huanbao Co., Ltd.▲

98.8% Yangjiang Guangdong Huanbao Co., Ltd.

98.8% WuChuan Guangdong Huanbao Co., Ltd.

100% China City Water Supply Investment (Hong Kong) Limited

- 60% Yizheng Gangyi Water Supply Company Limited▲
- 60% Gaoyou Gangyou Water Supply Company Limited▲
- 70% Zhaoqing HZ GDH Water Co., Ltd.
- 70% Baoying Yuehai Water Company Limited▲
- 86.96% Wuzhou Yuehai Huanbao Fazhan Company Limited▲

100% Xingning Yuehai Huanbao Co., Ltd.▲

100% Wuhua Yuehai Luyuan Huanbao Co.,Ltd.▲

100% Wuhua Yuehai Huanbao Co., Ltd.▲

- 100% Wuhua Yuehai Qingyuan Huanbao Co., Ltd.▲

100% Guangdong Yuehai Water Investment Company Limited▲

- 51% Wuzhou Yuehai Jianghe Water Company Limited▲
- 54.29% Kaiping Guangdong Water Co., Ltd.▲
  - 100% Kaiping Yuehai Sewage Treatment Co., Ltd.▲

Property Investment and Development

73.82% Guangdong Land Holdings Limited

100% Global Head Developments Limited *(Guangdong Investment Tower properties)*

100% Guangdong Properties Holdings Limited *(Guangdong Group Building properties)*

76.13% Guangdong Teem (Holdings) Limited▲ *(Teem Plaza)*

60% Guangzhou Tianhecheng Investment Co., Ltd.▲

68% Guangzhou City Wanye Investment Management Company Limited▲ *(Panyu Wanbo CBD project)*

76.02% Tianjin Teem Shopping Center Co., Ltd. *(Tianjin Teem Shopping Mall)*

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GUANGDONG INVESTMENT LIMITED

Department Store Operation

85.20% Guangdong Teemall Department Stores Ltd.▲

- **100%** Tianjin Teemall Department Stores Ltd.▲

Hotel Ownership, Operation and Management

100% Guangdong (International) Hotel Management Holdings Limited

- **76.13%** Sheraton Guangzhou Hotel

100% Fill Success Investments Limited *(Wharney Guangdong Hotel (Hong Kong))*

100% Guangdong Hotel Limited *(Guangdong Hotel (Hong Kong))*

100% Guangdong Hotel (Zhu Hai)▲

99% Shenzhen Guangdong Hotel Enterprise Ltd.▲ *(Guangdong Hotel (Shen Zhen))*

Energy Projects, Road and Bridge

100% Guangxi Xinchangjiang Gonglu Company Limited▲ *(Xingliu Expressway)*

100% Dongguan Yuehai Yinping Development and Construction Limited▲

100% Guangzhou GDI Yinping Capital Management Limited

71.25% Zhongshan Thermal Power Co., Ltd.▲ *(Zhongshan Power Plant)*

25% Guangdong Yudean Jinghai Power Generation Co., Ltd. *(Yudean Jinghai Power Plant)*

Notes:

(i) Projects of the Group are shown in italics and do not constitute part of the individual company's or joint venture's name.

(ii) The English name of the entity marked with a "▲" is a translation of its Chinese name, and is included herein and in other sections of this Annual Report for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.

FINANCIAL HIGHLIGHTS

Financial Highlights for the year ended 31 December

	2018 HK$'000	2017 HK$'000	Changes %
Revenue	**13,363,600**	12,168,839	9.8
Profit for the year attributable to owners of the Company	**5,015,119**	5,685,371	–11.8
Earnings per share — Basic	**HK 76.71 cents**	HK 88.04 cents	–12.9
Dividends per share			
Interim	**HK 16.00 cents**	HK 14.50 cents	
Proposed final	**HK 37.50 cents**	HK 34.00 cents	
	HK 53.50 cents	HK 48.50 cents	10.3
EBITDA	**8,436,880**	9,112,059	–7.4
Owners' equity	**40,372,255**	40,214,459	0.4
Total assets	**73,182,444**	66,539,014	10.0
Net financial borrowings[7]	**1,642,407**	–	N/A

Key Ratios (as at 31 December)

	2018	2017
Gearing[1]	**7.0%**	N/A
Interest cover[2]	**56.26X**	82.39X
Liquidity[3]	**3.21X**	2.13X
Return on average owners' equity[4]	**12.45%**	15.70%
Post-tax return on average assets[5]	**7.87%**	10.12%
Dividend payout ratio[6]	**69.74%**	55.09%

Share Information (as at 31 December)

	2018	2017
Number of ordinary shares in issue	**6,538m**	6,538m
Market capitalisation	**HK$98,983m**	HK$68,386m
Closing market price per share	**HK$15.14**	HK$10.46
Basic earnings per share	**HK 76.71 cents**	HK 88.04 cents
Diluted earnings per share	**HK 76.68 cents**	HK 87.96 cents
Net asset value[8] per share	**HK$6.18**	HK$6.15

Notes:

1. $\frac{\text{Net Financial indebtedness}}{\text{Net asset value}^{8}}$
2. $\frac{\text{EBITDA}}{\text{Finance costs}}$
3. $\frac{\text{Current assets}}{\text{Current liabilities}}$
4. $\frac{\text{Profit for the year attributable to owners}}{(\text{opening equity}^{8} + \text{closing equity}^{8})/2}$
5. $\frac{\text{Profit for the year}}{(\text{opening total assets} + \text{closing total assets})/2}$
6. $\frac{\text{Dividends per share}}{\text{Basic earnings per share}}$
7. Financial borrowings – cash and cash equivalents
8. Excluded non-controlling interests

Analysis of gross financial borrowings (as at 31 December)

	2018 HK$'000	2017 HK$'000
Loans maturity profile		
Within 1 year	**1,685,292**	5,294,634
In the 2nd year	**702,546**	131,264
In the 3rd to 5th years, inclusive	**6,852,721**	444,671
Over 5 years	**89,248**	49,551
	9,329,807	5,920,120
Currency	**%**	%
Hong Kong dollars	**70.0**	95.5
Renminbi	**30.0**	4.5
Interest rate	**%**	%
Floating	**93.0**	86.9
Fixed	**0.5**	1.0
Non-interest bearing	**6.5**	12.1

Source of financing (as at 31 December 2018)

	Available and committed %	Utilised %
Interest-bearing bank and other borrowings	**94.2**	**93.5**
Non-interest-bearing borrowings	**5.8**	**6.5**
	100.0	**100.0**

Analysis of the Group's Businesses

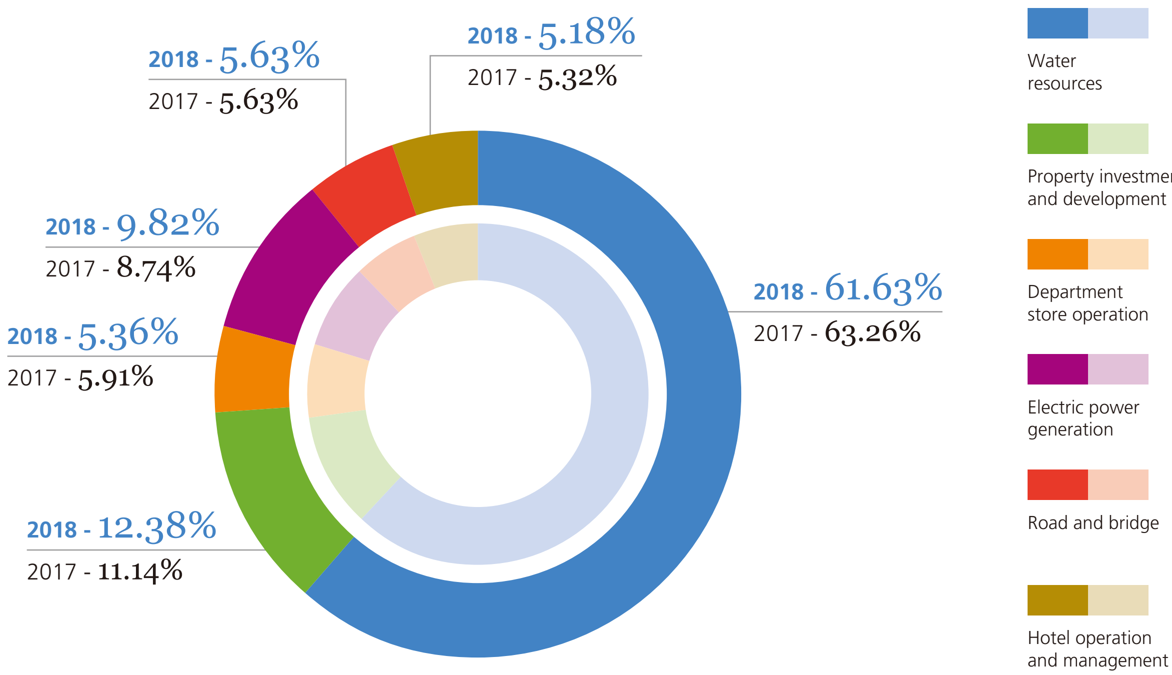
Year ended 31 December 2018

	Revenue		Segment results	
	HK$'000	%	HK$'000	%
By Activity:				
Water resources	8,235,422	61.63	4,179,049	65.67
Property investment and development	1,654,263	12.38	1,148,017	18.04
Department store operation	716,497	5.36	185,754	2.92
Electric power generation	1,312,672	9.82	221,803	3.49
Hotel operation and management	692,786	5.18	138,624	2.18
Road and bridge	751,960	5.63	489,844	7.70
Others and elimination	–	–	(293,909)	–
	13,363,600	100.00	6,069,182	100.00
By Geographical Area:				
Mainland China	13,084,547	97.91		
Hong Kong	279,053	2.09		
	13,363,600	100.00		

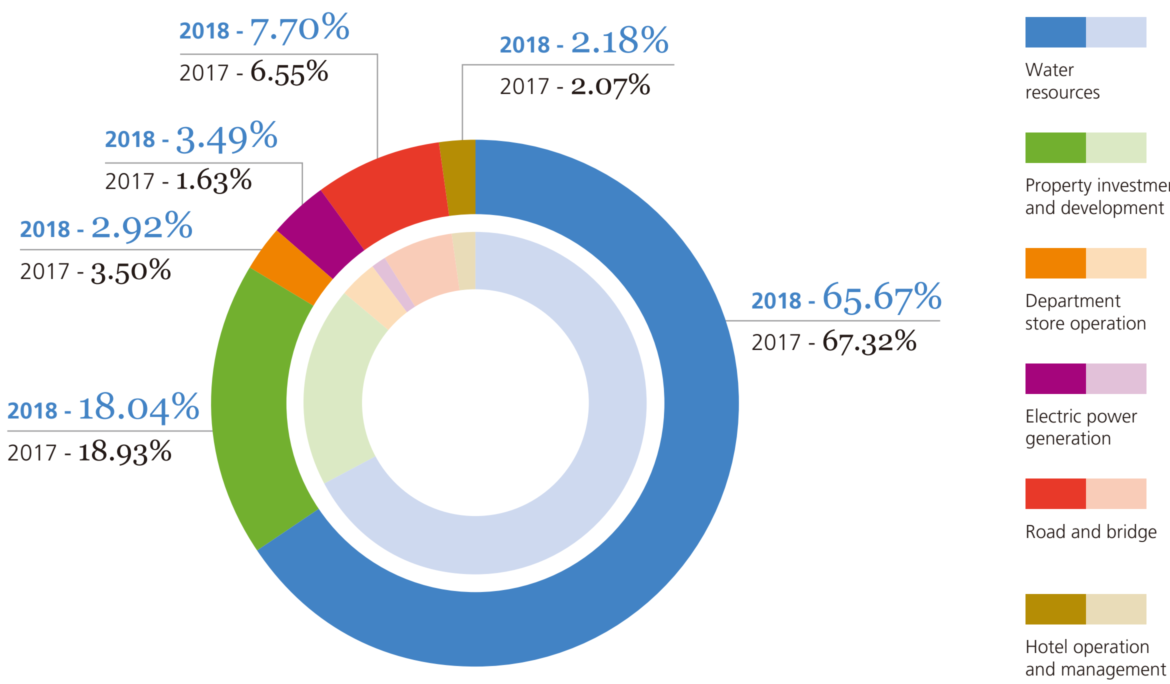
Year ended 31 December 2017

	Revenue		Segment results	
	HK$'000	%	HK$'000	%
By Activity:				
Water resources	7,698,047	63.26	3,901,703	67.32
Property investment and development	1,355,338	11.14	1,097,192	18.93
Department store operation	719,677	5.91	202,651	3.50
Electric power generation	1,064,044	8.74	94,612	1.63
Hotel operation and management	647,178	5.32	119,865	2.07
Road and bridge	684,555	5.63	379,814	6.55
Others and elimination	–	–	116,246	–
	12,168,839	100.00	5,912,083	100.00
By Geographical Area:				
Mainland China	11,910,867	97.88		
Hong Kong	257,972	2.12		
	12,168,839	100.00		

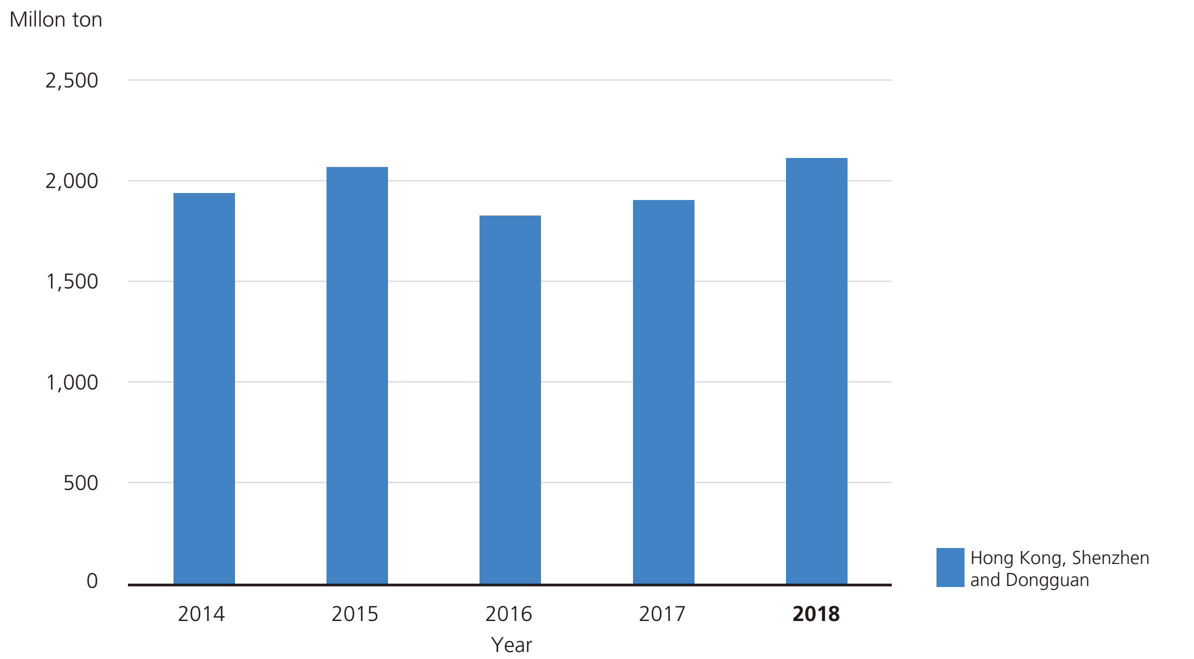
Revenue by Operating Segments



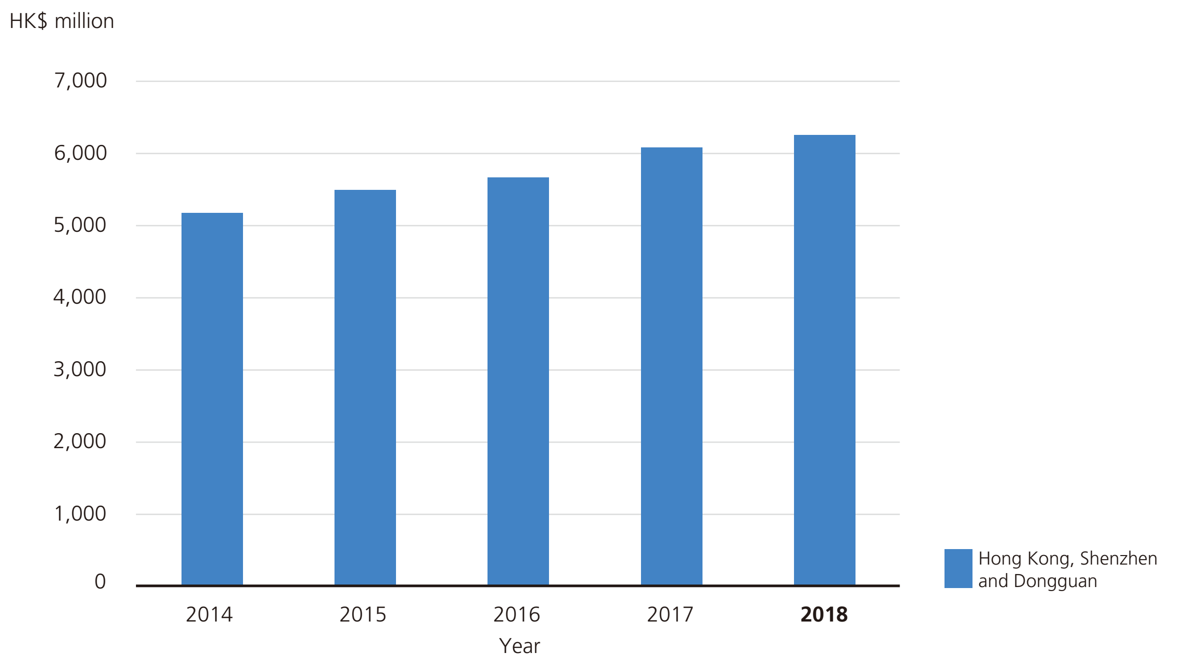
Segment Results by Operating Segments



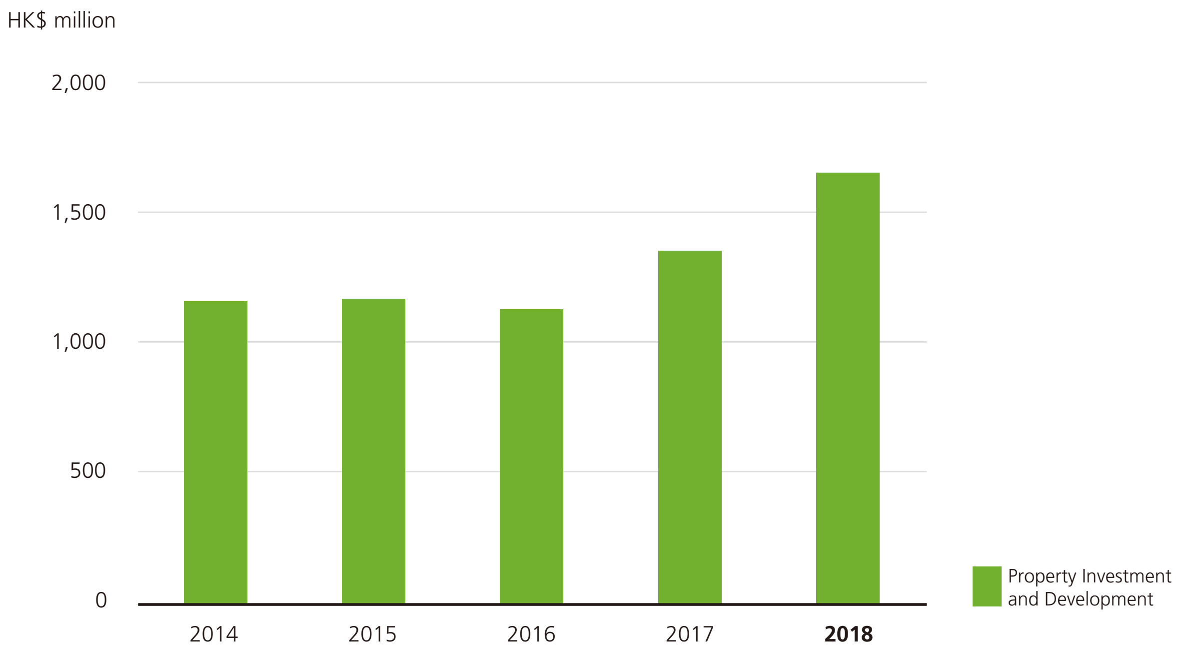
Water Distribution – Annual Volume



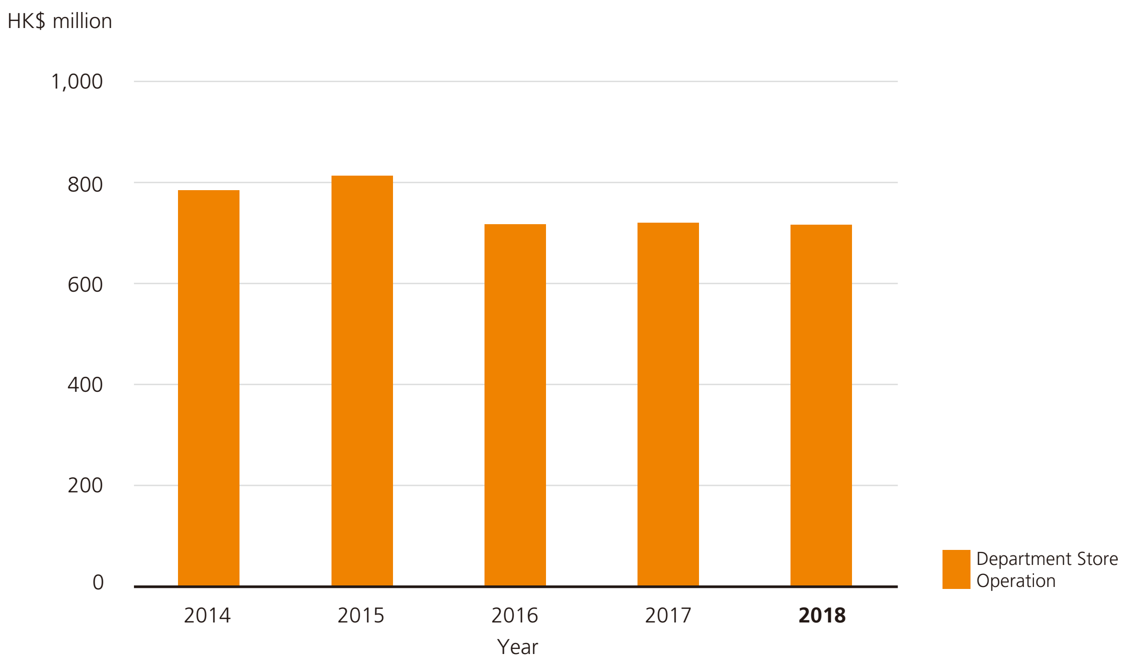
Water Distribution – Annual Revenue



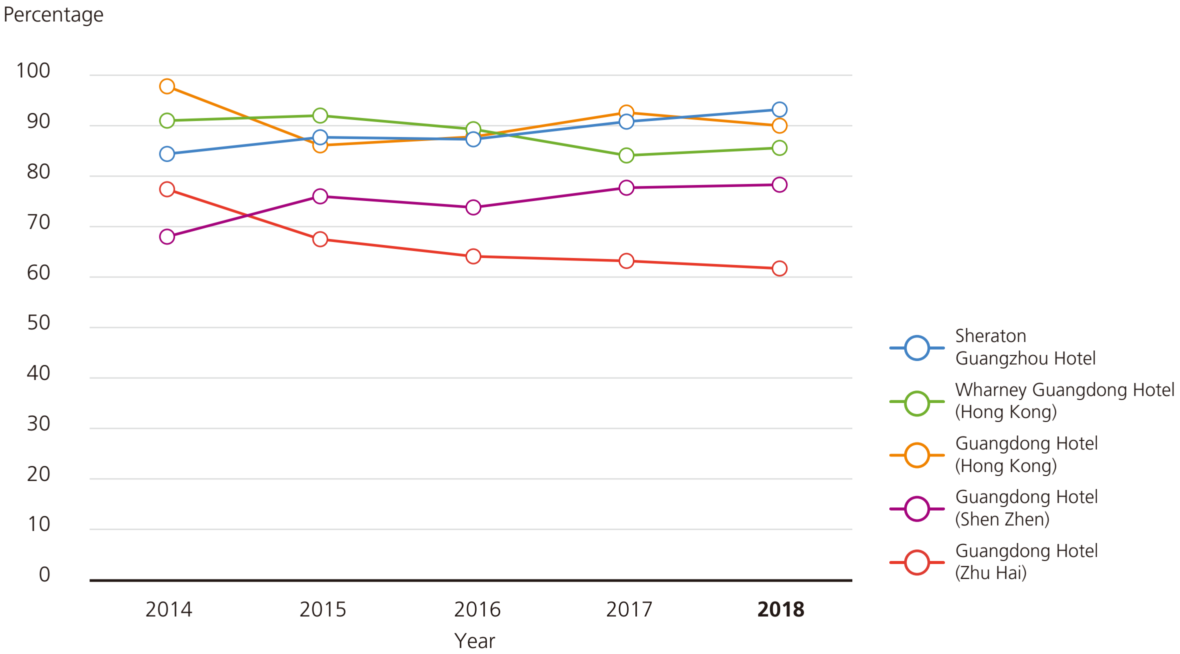
Property Investment and Development – Annual Revenue



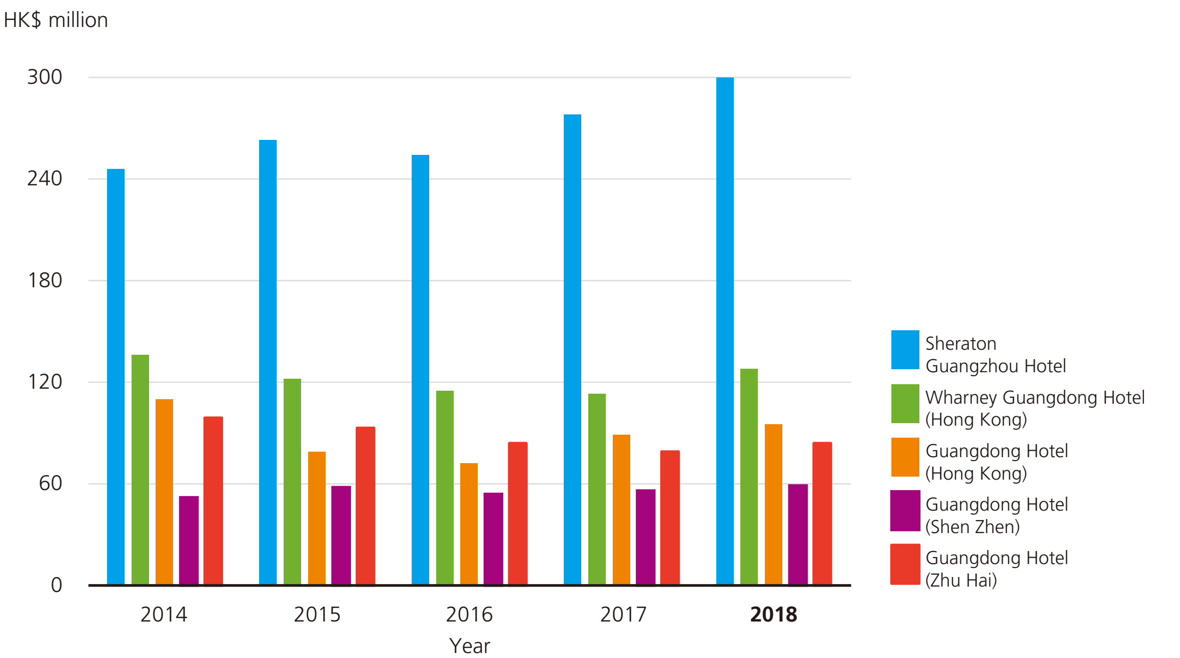
Department Store Operation – Annual Revenue



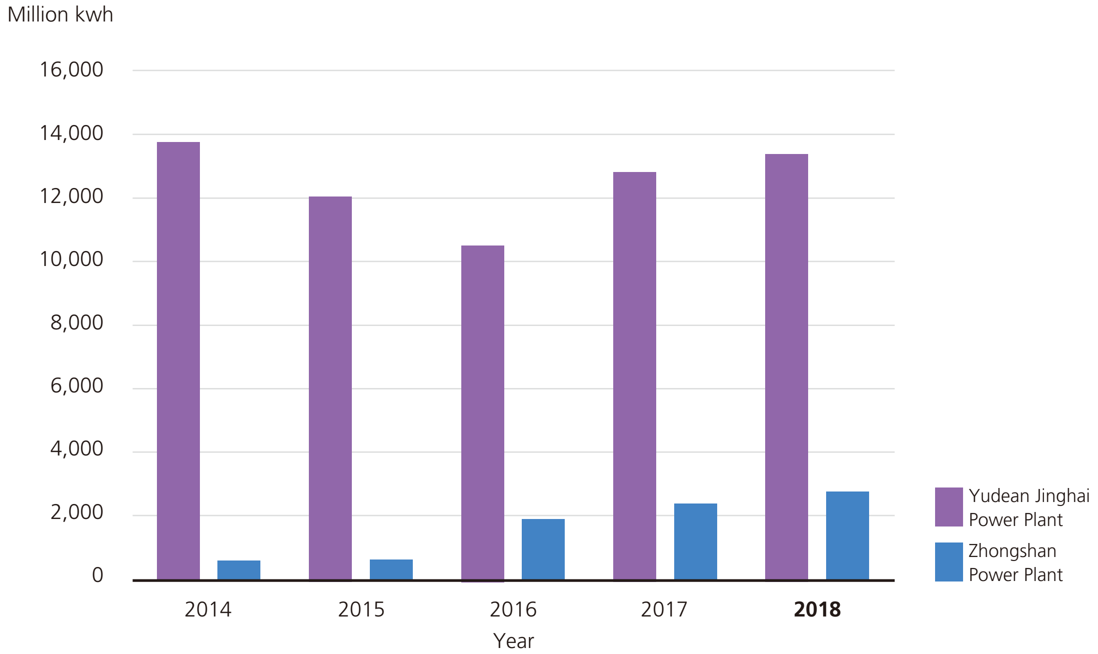
Hotel Operation and Management – Occupancy Rate



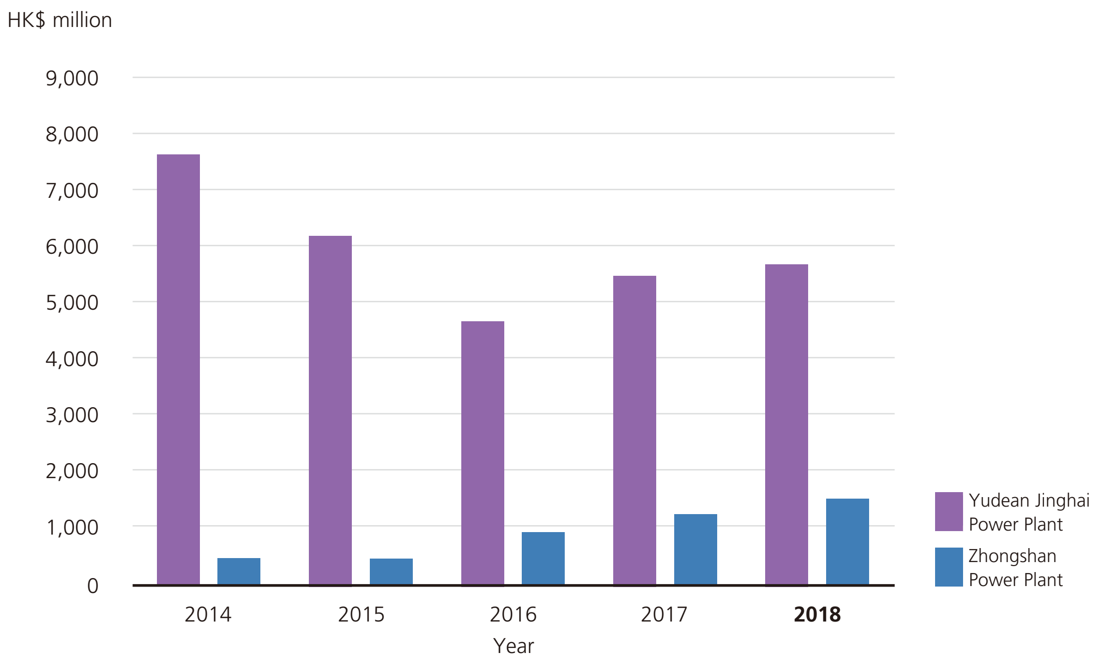
Hotel Operation and Management – Annual Revenue



Electric Power Generation – Annual Sales of Electricity



Electric Power Generation – Annual Revenue



CHAIRMAN'S STATEMENT

HUANG Xiaofeng
Chairman

Results

I am pleased to report to the shareholders our results of 2018. The Group's consolidated profit attributable to owners of the Company for 2018 amounted to HK$5,015 million (2017: HK$5,685 million), a decrease of 11.8% over 2017. Basic earnings per share decreased by 12.9% over the same period last year to HK 76.71 cents (2017: HK 88.04 cents).

Dividend

The Group uses its best endeavours to maximise shareholders' interests with a view to creating a long-term value for the stakeholders and considers that dividend forms an integral part of shareholders' return. The Company has maintained a stable dividend distribution policy over the years. The Board recommends the payment of a final dividend of HK 37.5 cents per share for 2018. Aggregating such dividend with the interim dividend of HK 16.0 cents per share paid in 2018, the total dividend for the entire year will be HK 53.5 cents (2017: HK 48.5 cents) per share. The said 2018 final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on or about 26 July 2019.

Review

In 2018, the overall global economic growth remained stable amid widening regional disparities, downside risks accumulation, rising trade tensions, Eurozone political instabilities and Brexit uncertainties. Despite growing downward pressure due to challenging external and domestic environment, China's economic performance maintained a stable and improving growth trend and displayed resilience and growth potential. Faced with an increasingly complex external environment, the Group adhered to its development strategy of "make progress while ensuring stability". On the one hand, the Group achieved enhanced operational efficiency and performance of its core businesses, while further improving its corporate governance and risk management mechanism. On the other hand, the Group actively seized market opportunities and continued efforts on core business expansion to safeguard the sustainable development of the Company.

Among the Group's business segments, water resources segment continued its capacity expansion, accelerated the pace of new project acquisition, and achieved breakthrough entry into untreated water and integrated water environment management businesses. Occupancy rate of property investment and development segment increased, and projects under development achieved milestone progress. Profit from hotel operation and management segment exhibited positive growth and the Group continued to focus on maintaining guest loyalty and enhancing its brand recognition. Profit from department store operation remained stable year-on-year, as weak domestic demand and proliferation of different retail channels adversely affected the business. Electric power generation business recorded good growth in profit, but continuous monitoring of coal price fluctuations and policy changes is essential. The performance of other infrastructure segment was in line with expectation. Benefiting from regional economic development, the Group's road and bridge segment achieved stable growth in both traffic flow and financial performance. Meanwhile, the Group closely monitored foreign exchange risks and utilised various strategies to minimise the Group's currency risk exposure.

Prospects

Looking ahead to 2019, amid elevated global trade tensions, regional political and economic policy uncertainties as well as rising global debt levels, global economic recovery momentum is expected to weaken with signs of slower pace of expansion. China's economic development faces more challenges due to the combined adverse effects of accelerating economic transformation, ongoing structural deleveraging pressure and weak domestic consumption. Faced with complex and challenging external environment, unpredictable political and economic circumstances, capital market, interest rate and exchange rate volatilities, the Group will continue to implement its steady growth development strategy and strengthen its risk management capabilities in order to create long-term value for its stakeholders.

The Group will continue its investments in water resources management, property investment and development as well as infrastructure segments, expanding its core business segments while optimising the asset mix and resources allocation. In accordance with its existing business and resources, the Group endeavours to grasp potential opportunities arising from "The Greater Bay Area Initiative", and continues to monitor public-private-partnership projects as well as other related market acquisition opportunities to promote profit growth so as to further enhance the Company's financial performance and create long-term value.

Finally, on behalf of the Board, I would like to thank all investors for their continued support and all our management and staff for their dedication, hard work and the good results they have assisted the Group to achieve in the year.

HUANG Xiaofeng
Chairman
Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The consolidated revenue of the Group for 2018 was HK$13,364 million (2017: HK$12,169 million), an increase of 9.8% as compared with that of 2017. In addition, the consolidated profit before tax for 2018 decreased by 9.5% or HK$726 million to HK$6,895 million (2017: HK$7,621 million) and the consolidated profit attributable to owners of the Company for 2018 decreased by 11.8% or HK$670 million to HK$5,015 million (2017: HK$5,685 million).

The growth in revenue was mainly attributable to a better performance in water resources business, electric power generation business and property investment and development business during the year. The decrease in the profit before tax and profit attributable to owners of the Company was mainly due to the absence of a one-off gain on bargain purchase of HK$1,213 million arising from the acquisition of approximately 73.82% of the issued share capital of Guangdong Land Holdings Limited ("GD Land") recognised in 2017 while the one-off gain on bargain purchase arising from the acquisition of 100% equity interest of 廣東粵海房地產開發有限公司 (Guangdong Yuehai Property Development Co., Ltd.▲) ("GYPD") was approximately HK$297 million during the year. Furthermore, the net gain arising from fair value adjustments for investment properties for the year was HK$230 million (2017: HK$432 million), HK$202 million lower than that in 2017. Nevertheless, the decrease was partially offset by a better performance in water resources business and property investment and development business. Total interest income, finance costs and net exchange gain of the Group for the year amounted to HK$516 million (2017: HK$441 million), HK$150 million (2017: HK$111 million) and HK$120 million (2017: net exchange loss of HK$57 million), respectively. Total interest income net of finance costs of the Group increased by 10.9% to HK$366 million (2017: HK$330 million) for the year.

Basic earnings per share was HK 76.71 cents (2017: HK 88.04 cents), a decrease of 12.9% as compared with that in 2017.

Business Overview

A summary of the performance of the Group's major businesses during 2018 is set out as follows:

Water Resources

Dongshen Water Supply Project

The profit contribution from the Dongshen Water Supply Project continued to form a significant part of the Group's profit. As at 31 December 2018, the Company's interest in GH Water Supply (Holdings) Limited ("GH Water Holdings") was 96.04% (2017: 96.03%). GH Water Holdings holds a 99.0% interest in Guangdong Yue Gang Water Supply Company Limited, the owner of the Dongshen Water Supply Project.

The designed annual capacity of Dongshen Water Supply Project is 2.423 billion tons. Total water supply to Hong Kong, Shenzhen and Dongguan during the year amounted to 2.111 billion tons (2017: 1.904 billion tons), increasing by 10.9% and generating a revenue of HK$6,250 million (2017: HK$6,073 million), an increase of 2.9% over 2017.

Pursuant to the Hong Kong Water Supply Agreement for the years 2018 to 2020 entered into between the Government of the Hong Kong Special Administrative Region and the Guangdong Provincial Government in 2017, the annual revenue for water sales to Hong Kong for the three years of 2018, 2019 and 2020 were HK$4,792.59 million, HK$4,807.00 million and HK$4,821.41 million, respectively.

The revenue from water sales to Hong Kong for the year increased by 0.3% to HK$4,793 million (2017: HK$4,778 million). The revenue from water sales to Shenzhen and Dongguan areas for the year increased by 12.5% to HK$1,457 million (2017: HK$1,295 million). The profit before tax, excluding net exchange differences and net interest income, of the Dongshen Water Supply Project for the year was HK$3,929 million (2017: HK$3,810 million), 3.1% higher than that in 2017.

Other Water Resources Projects

Apart from the Dongshen Water Supply Project, the Group has a number of subsidiaries and associates which are principally engaged in water distribution, sewage treatment operation and waterworks construction in the People's Republic of China (the "PRC" or "Mainland China").

During the year, the Group entered into a supplemental concession agreement for new construction and expansion of existing sewage treatment plants in Meizhou, Guangdong Province. In addition, the Group successfully bid for seven new water resources projects and the construction of related water pipe networks and ancillary facilities in Yangjiang, Yangshan, Renhua and Wuchuan in Guangdong Province, Enshi in Hubei Province and Liupanshui in Guizhou Province. The expected total investment amount of the new and expansion projects are RMB5,893 million (equivalent to approximately HK$6,726 million).

As at 31 December 2018, the total designed water supply capacity of the water supply plants and the total designed waste water processing capacity of the sewage treatment plants of the Group's Other Water Resources Projects are 6,004,000 tons per day (2017: 5,604,000 tons per day) and 1,140,000 tons per day (2017: 686,000 tons per day), respectively.

Capacity of Water Resources Projects in Operation

- The water supply capacity of the water supply plants operated by each of the subsidiaries of the Company, namely, 東莞市清溪粵海水務有限公司 (Dongguan Qingxi Guangdong Water Co., Ltd.▲), 梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲), 儀征港儀供水有限公司 (Yizheng Gangyi Water Supply Company Limited▲), 高郵港郵供水有限公司 (Gaoyou Gangyou Water Supply Company Limited▲), 寶應粵海水務有限公司 (Baoying Yuehai Water Company Limited▲), 海南儋州自來水有限公司 (Hainan Danzhou Tap Water Company Limited▲), 梧州粵海江河水務有限公司 (Wuzhou Yuehai Jianghe Water Company Limited▲), Zhaoqing HZ GDH Water Co., Ltd., 遂溪粵海水務有限公司 (Suixi Guangdong Water Company Limited▲), 海南儋州粵海水務有限公司 (Hainan Danzhou Guangdong Water Company Limited▲), 豐順粵海水務有限公司 (Fengshun Guangdong Water Co., Ltd.▲) and 盱眙粵海水務有限公司 (Xuyi Guangdong Water Company Limited▲) is 290,000 tons, 310,000 tons, 150,000 tons, 145,000 tons, 130,000 tons, 100,000 tons, 355,000 tons, 150,000 tons, 50,000 tons, 50,000 tons, 73,500 tons and 150,000 tons per day, respectively, totaling 1,953,500 tons per day (2017: 1,853,500 tons per day).

- The waste water processing capacity of the sewage treatment plants operated by each of the subsidiaries of the Company, namely, 梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲), 梧州粵海環保發展有限公司 (Wuzhou Yuehai Huanbao Fazhan Company Limited▲), 東莞市常平金勝水務有限公司 (Dongguan Changping Jinsheng Water Co., Ltd.▲), 開平粵海水務有限公司 (Kaiping Guangdong Water Co., Ltd.▲), 五華粵海環保有限公司 (Wuhua Yuehai Huanbao Co., Ltd.▲), 東莞市道滘鴻發污水處理有限公司 (Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲), 興寧粵海環保有限公司 (Xingning Yuehai Huanbao Co., Ltd.▲), 開平粵海污水處理有限公司 (Kaiping Yuehai Sewage Treatment Co., Ltd.▲), 五華粵海清源環保有限公司(Wuhua Yuehai Qingyuan Huanbao Co., Ltd.▲) and 汕尾粵海環保有限公司 (Shanwei Yuehai Huanbao Co., Ltd.▲) is 100,000 tons, 90,000 tons, 70,000 tons, 50,000 tons, 40,000 tons, 40,000 tons, 3,000 tons, 25,000 tons, 15,000 tons and 30,000 tons per day, respectively, totaling 463,000 tons per day (2017: 433,000 tons per day).

- The water supply capacity of the water supply plants operated by Foundation Gang-Wu (Changzhou) Water Supply Co., Ltd., 廣州南沙粵海水務有限公司 (Guangzhou Nansha GDH Water Co., Ltd.▲) and 汕頭市粵海水務有限公司 (Shantou Guangdong Water Company Limited▲), being associates of the Company, is 520,000 tons, 400,000 tons and 920,000 tons per day, respectively, totaling 1,840,000 tons per day (2017: 1,840,000 tons per day).

Capacity of Water Resources Projects under Construction

- The water supply capacity of the water supply plants under construction of each of the subsidiaries of the Company, namely, 高州粵海水務有限公司 (Gaozhou Guangdong Water Company Limited▲), Zhaoqing HZ GDH Water Co., Ltd., 遂溪粵海水務有限公司 (Suixi Guangdong Water Company Limited▲) and 雲浮粵海水務有限公司 (Yunfu Guangdong Water Company Limited▲) is 100,000 tons, 50,000 tons, 20,000 tons and 50,000 tons per day, respectively, totaling 220,000 tons per day.

- The waste water processing capacity of the sewage treatment plants under construction of each of the subsidiaries of the Company, namely, 五華粵海綠源環保有限公司 (Wuhua Yuehai Luyuan Huanbao Co., Ltd.▲), 大埔粵海環保有限公司 (Dapu Guangdong Huanbao Co., Ltd.▲), 海南儋州粵海水務有限公司 (Hainan Danzhou Guangdong Water Company Limited▲), 梧州粵海環保發展有限公司 (Wuzhou Yuehai Huanbao Fazhan Company Limited▲), 梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲), 韶關粵海綠源環保有限公司 (Shaoguan Yuehai Luyuan Huanbao Co., Ltd.▲) and 陽山粵海環保有限公司 (Yangshan Guangdong Huanbao Co., Ltd.▲) is 11,000 tons, 22,000 tons, 20,000 tons, 50,000 tons, 150,000 tons, 28,500 tons and 35,300 tons per day, respectively, totaling 316,800 tons per day.

Revenue of Other Water Resources Projects for the year in aggregate amounted to HK$2,012,481,000 (2017: HK$1,641,100,000), 22.6% higher than that in 2017. The growth was mainly attributable to additional returns from those water resources projects newly acquired or launched. Profit before tax of Other Water Resources Projects for the year, excluding the net exchange differences and net finance costs, amounted to HK$301,378,000 (2017: HK$242,373,000) in aggregate, 24.3% higher than that in 2017.

Property Investment and Development

Mainland China

Teem Plaza

As at 31 December 2018, the Group held an effective interest of 76.13% in 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited▲) ("GD Teem"), the property owner of Teem Plaza. Teem Plaza comprises a shopping mall, an office building and a hotel. The shopping mall and the office building are held for investment purposes by the Group.

Revenue of Teem Plaza comprises rental and property management fee income from both the shopping mall (including rentals from the department stores operated by the Group) and the office building. During the year, revenue of Teem Plaza increased by 6.4% to HK$1,207,706,000 (2017: HK$1,135,585,000). The profit before tax for the year, excluding changes in fair value of investment properties and net interest income, increased by 4.0% to HK$817,371,000 (2017: HK$785,620,000).

The shopping mall, known as Teemall, is one of the most popular shopping malls in the prime area of Guangzhou and it has a total gross floor area ("GFA") of approximately 160,000 square meters ("sq. m."), of which 106,000 sq. m. was held for rental purposes. The mall is successful in retaining existing brand-name tenants and attracting new ones. It had an average occupancy rate of nearly 99.9% during the year (2017: 99.9%).

The office building, known as Teem Tower, is a 45-storey Grade A office tower with a total GFA of approximately 102,000 sq. m., of which 90,000 sq. m. was held for rental purposes. With an average occupancy rate of 98.5% (2017: 92.7%), the revenue for the year was HK$215,790,000 (2017: HK$196,590,000), increasing by 9.8%. The profit before tax for the year, excluding changes in fair value of investment properties, increased by 11.8% to HK$178,093,000 (2017: HK$159,319,000).

Tianjin Teem Shopping Mall

The Group held an effective interest of 76.02% in Tianjin Teem Shopping Center Co., Ltd. ("Tianjin Teem"), the property owner of Tianjin Teem Shopping Mall. Tianjin Teem Shopping Mall, with a total GFA of approximately 205,000 sq. m., of which 140,000 sq. m. was held for rental purposes, is situated at a convenient location above underground railroads and is one of the leading shopping and leisure destinations in the renowned "Binjiang Dao – Heping Road" Commercial District in Tianjin. A total sum of approximately RMB2,508 million (equivalent to approximately HK$2,862 million) had been invested as at 31 December 2018.

Tianjin Teem Shopping Mall opened in June 2017 and with encouraging response from tenants ranging from local enterprises to well-known multinationals, the mall had an average occupancy rate of 98.2% (2017: 96.7%) during the year. Revenue of Tianjin Teem Shopping Mall for the year was HK$167,606,000 (including rentals from the department stores operated by the Group) (2017: HK$81,512,000). The profit before tax of Tianjin Teem Shopping Mall for the year, excluding changes in fair value of investment properties and net finance costs, was HK$33,782,000 (2017: loss before tax of HK$667,000).

Panyu Wanbo CBD Project

The Group's effective interest in 廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited▲) ("Wanye") is 31.06%. 廣州天河城投資有限公司 (Guangzhou Tianhecheng Investment Co., Ltd.▲) ("Tianhecheng Investco"), a 60%-owned subsidiary of GD Teem, directly holds a 68% interest in Wanye. As at 31 December 2018, a total sum of approximately HK$2,227 million had been invested by Tianhecheng Investco into Wanye in accordance with the cooperation agreement.

Wanye owns a parcel of land in 番禺萬博中央商務區 (Panyu Wanbo Central Business District), which is designated to be a new commercial area in Guangzhou. Based on the Group's current development plan, this parcel of land is being developed into a large-scale integrated commercial project with a total GFA of approximately 385,000 sq. m. of which properties with GFA of approximately 152,000 sq. m. and 104,000 sq. m. will be held for sale and for rental purposes, respectively, upon their completion.

As at 31 December 2018, the cumulative land and development cost incurred by the Group for Panyu Wanbo CBD Project amounted to approximately HK$3,164 million (31 December 2017: approximately HK$3,196 million), of which approximately HK$1,686 million and HK$1,478 million were attributable to "Properties held for sale under development" under the current assets and "Investment properties" under the non-current assets, respectively.

The pre-sale of the commercial residential units and offices of Panyu Wanbo CBD Project had commenced in 2018, with an aggregate subscribed GFA of approximately 77,000 sq. m. for the year ended 31 December 2018.

GD Land

The Company's effective interest in GD Land is approximately 73.82%. GD Land holds a 100% interest in the GDH City Project (a marketing name used by GD Land for promoting the Buxin Project), which is a multi-functional commercial complex with jewelry as the main theme, located in Luohu District, Shenzhen City, the PRC. The total site area of the project amounts to approximately 66,526 sq. m., and the GFA included in the calculation of the plot ratio amounts to approximately 432,051 sq. m. In addition, an underground area of 30,000 sq. m. could be developed for commercial use.

As at 31 December 2018, the cumulative development costs and fees incurred by the Group for the GDH City Project amounted to approximately HK$8,262 million (31 December 2017: approximately HK$7,723 million), of which approximately HK$4,146 million and HK$4,116 million were attributable to "Properties held for sale under development" under the current assets and "Investment properties" under the non-current assets, respectively.

In relation to the property sale of the GDH City Project, after securing a pre-sale approval from the government in December 2018, the pre-sale of the properties in the first stage of the project had commenced, with an aggregate subscribed GFA of approximately 2,857 sq. m. for the year ended 31 December 2018.

In July 2018, GD Land completed its acquisition of 100% equity interest in GYPD, which holds each of the Zhuguanglu Project (now named as the Laurel House Project) and the Baohuaxuan Project in the PRC. A gain on bargain purchase of approximately HK$297 million (2017: Nil) was recognised in the statement of profit or loss during the year. The Laurel House Project is located in Yuexiu District, Guangzhou City, the PRC, with a GFA of approximately 119,267 sq. m. The Laurel House Project includes residential units, commercial properties and car-parking spaces, among which all the residential units and some of the car-parking spaces are for sale, while the remaining properties will be for rent.

The sale of the residential units under the Laurel House Project commenced in November 2018. For the year ended 31 December 2018, the GFA of residential units under the Laurel House Project which had been delivered to customers amounted to approximately 2,943 sq. m., representing approximately 4.5% of the GFA of the residential units in aggregate.

Revenue of GD Land for the year increased by 96.2% to HK$312 million (2017: HK$159 million), of which sales of properties amounted to HK$309 million (2017: HK$159 million).

Hong Kong

Guangdong Investment Tower

The average occupancy rate of Guangdong Investment Tower for the year was 99.5% (2017: 100%). As a result of the increase in average rental, total revenue for the year was up by 2.9% to HK$56,605,000 (2017: HK$55,031,000).

Department Store Operation

As at 31 December 2018, the Group held an effective interest of approximately 85.2% in both 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲) ("GDTDS") and 廣州市天河城萬博百貨有限公司 ("天河城萬博"). GDTDS operates Teemall Store in Teem Plaza. GDTDS also operates Teemall Store – Beijing Road Branch ("Ming Sheng Store"), 奧體歐萊斯名牌折扣店 ("Ao Ti Store"), 東圃百貨店 ("Dong Pu Store"), 東莞第一國際百貨店("Dongguan Store"), 佛山南海百貨店 ("Nanhai Store") and 天津天河城百貨店 ("Tianjin Teem Store"). 天河城萬博 operates 天河城百貨歐萊斯折扣店 ("Wan Bo Store").

The eight stores (2017: nine stores) had a total leased area of approximately 168,700 sq. m. (2017: 183,400 sq. m.) as at 31 December 2018. The total revenue decreased by 0.4% to HK$716,497,000 (2017: HK$719,677,000). The profit before tax for the year increased by 0.7% to HK$235,864,000 (2017: HK$234,276,000).

The revenue of the stores operated by the Group for the year ended 31 December 2018 was as follows:

		Revenue for the year ended 31 December		
	Leased area sq.m.	**2018** **HK$'000**	2017 HK$'000	**Changes** %
Teemall Store	40,100	**474,354**	475,632	–0.3
Wan Bo Store	19,600	**89,764**	91,167	–1.5
Ming Sheng Store	13,300	**46,440**	50,191	–7.5
Dong Pu Store	28,300	**52,750**	51,899	+1.6
Ao Ti Store	21,500	**42,141**	37,803	+11.5
Dongguan Store	9,800	**3,434**	3,899	–11.9
Nanhai Store	28,400	**2,784**	3,954	–29.6
Yuehaiyangzhong Hui Store (closed in October 2018)	–	**2,294**	2,061	+11.3
Tianjin Teem Store (opened in June 2017)	7,700	**2,536**	3,071	–17.4
	168,700	**716,497**	719,677	–0.4

The Group's effective interest in 廣東永旺天河城商業有限公司 (Guangdong Aeon Teem Co., Ltd.▲) ("GD Aeon Teem") is 26.65%. The Group's share of profit in GD Aeon Teem amounted to HK$8,123,000 (2017: share of loss of HK$16,283,000) during the year.

Hotel Ownership, Operation and Management

As at 31 December 2018, the Group's hotel management team managed a total of 34 hotels (2017: 32 hotels), of which two were located in Hong Kong, one in Macau and 31 in Mainland China. As at 31 December 2018, five star-rated hotels, of which two in Hong Kong, one in each of Shenzhen, Guangzhou and Zhuhai, were owned by the Group (2017: owned five star-rated hotels). Of these five hotels, four were managed by our hotel management team with the exception of the one located at Guangzhou, namely Sheraton Guangzhou Hotel, which was managed by Sheraton Overseas Management Corporation.

During the year, the average room rate of Sheraton Guangzhou Hotel was HK$1,284 (2017: HK$1,227) whereas the average room rate of the remaining four star-rated hotels were HK$764 (2017: HK$679). The average occupancy rate of Sheraton Guangzhou Hotel was 93.2% (2017: 90.8%) and that of the other four star-rated hotels was 76.9% (2017: 77.4%) during the year.

The revenue of hotel ownership, operation and management business for the year increased by 7.0% to HK$692,786,000 (2017: HK$647,178,000). The profit before tax for the year, excluding the net exchange differences, increased by 28.1% to HK$156,554,000 (2017: HK$122,253,000).

Energy Projects

Zhongshan Power Project

Zhongshan Power (Hong Kong) Limited, a subsidiary of the Company, holds 75% equity interest in 中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.▲) ("ZTP"). ZTP has two power generation units with a total installed capacity of 600 MW. Sales of electricity during the year amounted to 2,794 million kwh (2017: 2,416 million kwh), increasing by 15.6%. As a result, revenue of Zhongshan Power Project (including intersegment sales) generated from electricity sales and related operations for the year increased by 22.1% to HK$1,539,347,000 (2017: HK$1,261,186,000). The profit before tax for the year, excluding net exchange differences and net finance costs, was HK$185,624,000 (2017: HK$143,381,000), an increase of 29.5%.

Guangdong Yudean Jinghai Power Generation Co., Ltd. ("Yudean Jinghai Power")

The Group's effective interest in Yudean Jinghai Power is 25%. As at 31 December 2018, Yudean Jinghai Power had four power generation units with a total installed capacity of 3,200 MW. Sales of electricity for the year amounted to 13,464 million kwh (2017: 12,896 million kwh), an increase of 4.4%. Revenue for the year increased by 3.8% to HK$5,716,188,000 (2017: HK$5,505,898,000). However, the growth was partially offset by the significant increase in coal price and other overheads. The profit before tax of Yudean Jinghai Power for the year was HK$152,428,000 (2017: HK$320,652,000), a decrease of 52.5%. The Group's share of profit in Yudean Jinghai Power amounted to HK$29,142,000 (2017: HK$61,296,000) during the year.

Road and Bridge

Xingliu Expressway
廣西新長江高速公路有限責任公司 (Guangxi Xinchangjiang Gonglu Company Limited▲) ("Xinchangjiang Company") is principally engaged in the operation of the Xingliu Expressway. The Xingliu Expressway comprises a main line which is approximately 100 km in length and three connection lines (to Xingye, Guigang and Hengxian) with an aggregate length of approximately 53 km.

The average daily toll traffic flow of the Xingliu Expressway was 22,447 vehicle trips during the year (2017: 20,859 vehicle trips), increasing by 7.6%. The revenue of Xinchangjiang Company during the year amounted to HK$745,300,000 (2017: HK$684,555,000), increasing by 8.9%. Profit before tax for the year, excluding net finance costs, amounted to HK$463,992,000 (2017: HK$418,606,000), increasing by 10.8%.

Yinping PPP Project
On 8 June 2016, the Company entered into a cooperation agreement with 東莞市謝崗鎮人民政府 (Dongguan City Xiegang Town People's Government) (the "Xiegang Government") in respect of a public-private-partnership project (the "Yinping PPP Project") for the development of certain A-grade highways, connecting roads and municipal roads (not being toll roads) (each a "Project Road" and together, the "Project Roads") and the related ancillary support services such as drainage, greening and lighting in 銀瓶創新區 (Yinping Innovation Zone) in Dongguan, Guangdong, the PRC. The Company had established Dongguan Yuehai Yinping Development and Construction Limited ("Yuehai Yinping"), a wholly-owned subsidiary of the Company, to perform the Company's obligations in the Yinping PPP Project.

During the period of construction of the Project Roads (the "Development Period"), the Group shall be responsible for providing funding for the development of the Project Roads (the "Development Costs") depending on the overall development plan and progress of Yinping Innovation Zone in phases with the total Development Costs not exceeding RMB4.754 billion (equivalent to approximately HK$5.426 billion). The Xiegang Government shall pay the Development Costs by 10 annual instalments throughout the maintenance period, being ten years (the "Maintenance Period") from the acceptance of the Project Roads by the Xiegang Government.

During the Development Period, the Group would be entitled to an accrued interest at 8% (compounded annually) from the date of each amount disbursed by Yuehai Yinping that constitutes the Development Costs for such Project Roads until the end of the Development Period of the relevant Project Roads. This amount (the "Accrued Interest Amount") will be paid by 10 annual instalments throughout the Maintenance Period. In addition, a management fee (the "Management Fee") equal to 2.5% of the Development Costs will be payable by 10 annual instalments throughout the Maintenance Period and an annual maintenance fee equal to 1.1% of the total Development Costs, will be payable annually over the Maintenance Period by the Xiegang Government. The aggregate of the then outstanding Development Costs, the Accrued Interest Amount and the Management Fee are calculated on an accrued interest at 8% per annum on a reducing balance basis over the Maintenance Period.

As at 31 December 2018, three Project Roads were under construction. The Accrued Interest Amount and Management Fee of Yuehai Yinping recognised during the year amounted to HK$19,391,000 in total (2017: Nil) and profit before tax during the year amounted to HK$6,602,000 (2017: loss before tax of HK$6,569,000).

Financial Assets at Fair Value through Profit or Loss and Other Financial Assets at Amortised Cost

As at 31 December 2018, the aggregate amount of financial assets at fair value through profit or loss and other financial assets at amortised cost of the Group increased by HK$904 million to HK$8,997 million (2017: available-for-sale financial assets of HK$8,093 million), which were placed by the Group with a number of licensed banks in the PRC, each of which for a term not exceeding one year. The principal sums of these financial assets with those licensed banks were denominated in Renminbi and were principal protected upon the maturity date. Up to the date of this report, financial assets at fair value through profit or loss and other financial assets at amortised cost in the amount of approximately HK$6,538 million matured.

Liquidity, Gearing and Financial Resources

As at 31 December 2018, cash and cash equivalents of the Group increased by HK$80 million to HK$7,645 million (2017: HK$7,565 million), of which 87.9% was denominated in Renminbi, 10.6% in Hong Kong dollars and 1.5% in United States dollars.

As at 31 December 2018, the Group's financial borrowings increased by HK$3,410 million to HK$9,330 million (2017: HK$5,920 million), of which 70% was denominated in Hong Kong dollars and 30% in Renminbi, including non-interest-bearing receipt in advance of HK$473 million. Of the Group's total financial borrowings, HK$1,685 million was repayable within one year while the remaining balances of HK$7,556 million and HK$89 million are repayable within two to five years and beyond five years from the end of the reporting period, respectively.

The Group maintained a credit facility of HK$1,071 million as at 31 December 2018 (2017: Nil).

As at 31 December 2018, the Group's gearing ratio (i.e. net financial indebtedness/net asset value (excluded non-controlling interests)) was 7.0% (2017: N/A). The Group was in a healthy debt servicing position as the EBITDA/finance cost as at 31 December 2018 was 56.3 times (2017: 82.4 times).

The existing cash resources of the Group, together with steady cash flows generated from the Group's operations, are sufficient to meet the Group's payment obligations and business requirements.

Pledge of Assets and Contingent Liabilities

As at 31 December 2018, except for bank deposits of HK$42,278,000 (2017: HK$68,242,000), completed properties held for sale of HK$3,566,882,000 (2017: Nil), completed investment properties of HK$412,009,000 (2017: Nil) and 100% equity interest of GYPD at the cost of approximately HK$1,390,761,000 (2017: Nil) pledged to secure certain bank loans and performance obligations attributable to the Group of certain construction agreements, none of the property, plant and equipment, concession rights for water distribution operation and sewage treatment operation, comprising operating concession rights and receivables under service concession agreements, were pledged to secure bank loans granted to the Group.

Except for the Group's proportional share of guarantees given to a bank in connection with facilities utilised by an associate of approximately HK$56 million (2017: approximately HK$59 million) and the guarantees made to certain banks in relation to the mortgages of the properties sold of approximately HK$370 million (2017: approximately HK$783 million) as disclosed in note 36 of this report, there was no other material contingent liability as at 31 December 2018 and 2017.

Capital Expenditure

The Group's capital expenditure during the year amounted to HK$1,867 million which was principally related to the development cost for property development projects, hotel renovation and development cost, construction cost for Zhongshan Power Plant, water supply and sewage treatment plants and acquisition of a subsidiary.

Exposure to Fluctuations in Exchange and Interest Rates and Related Hedges

As at 31 December 2018, total Renminbi borrowings amounted to HK$2,800 million (2017: HK$264 million). The Group did not use derivative financial instruments to hedge its foreign currency risk.

As at 31 December 2018, the Group's total floating rate borrowings amounted to HK$8,674 million (2017: HK$5,143 million). The interest rate risk exposure was considered to be minimal and thus no interest rate hedging was considered necessary.

Principal Risks and Uncertainties

Macroeconomic Risk

As a diversified conglomerate with investments in different business segments, the financial and operating performance of the Company is inextricably linked to the macroeconomic environment. Internationally, the overall global economic growth remained stable amid widening regional disparities, downside risks accumulation, rising trade tensions, Eurozone political instabilities and Brexit uncertainties. Domestically, the overall economic performance maintained a stable and improving growth trend. However, due to the combined effects of trade tensions, acceleration of replacement of old growth drivers with new initiatives and Renminbi exchange rate fluctuations, economic fundamentals remain challenging. Macroeconomic development faces dilemmas such as maintaining growth while attempting further structural adjustment without causing high inflation, which may cause uncertainties in future macroeconomic policies in areas such as fiscal, taxation, credit and exchange rate. Consequently, the Company will closely monitor changes in macroeconomic conditions, capital markets and business operating environments, and provide regular market updates to management according to existing company procedures in order to ensure effective implementation of the Company's development strategies and maintain its corporate competitiveness under such external economic environment.

Foreign Currency Risk

As most of the Company's business operations are in Mainland China, the Company faces foreign currency risks due to exchange gain/loss from exchange rate fluctuations as well as currency conversion risk due to converted net asset value fluctuations of investment projects in Mainland China. To effectively manage foreign currency risk, the Company closely monitors foreign exchange markets, and utilises multiple strategic approaches, such as optimising cash management strategy and deploying project finance instruments, to contain foreign exchange risk.

Market Competition Risk

As market competition intensifies, the Company faces difficulties in expansion and further decline in project investment returns in the sectors it operates in. In this regard, the Company seeks to explore new sources of revenue and reduce operating costs through product improvement, operating efficiency enhancement and strengthening of the project management team so as to enhance profitability of its projects.

Project Safety Management Risk

Project safety management risk encompasses product safety management risk as well as personnel safety management risk. With respect to product safety risk, the Company will systemise the relevant risk control mechanism so as to establish firmwide standardised risk management procedures. On the other hand, the Company will strengthen production quality control by performing regular safety inspections on its production and operational facilities as a preventive measure, and by seeking market supervision and take timely actions to rectify existing problems to avoid adverse impact.

With respect to personnel safety risk, each investment project in the Company's investment portfolio has a customised safety liability mechanism best suited to its operating environment. These safety liability mechanisms clearly define the assignment of duty and responsibility, and serve as the related performance evaluation guidelines. On top of that, the Company also provides regular operational safety training to its employees, and puts in place contingency plans to emergency events in order to ensure that such risks are effectively managed.

Employee and Remuneration Policy

As at 31 December 2018, the Group had a total of 6,983 employees, of which 1,278 employees were at managerial level. Among the employees, 6,731 were employed by subsidiaries in Mainland China and 252 were employed by the head office and subsidiaries in Hong Kong. Total staff costs for the year was approximately HK$1,383,240,000 (2017: HK$1,177,163,000).

In 2018, adhering to the people-oriented concept, the Group adhered to the core values of "integrity, professionalism, willingness, honesty and cooperation" of the corporate culture. The Group also continued to strengthen the management team building by employing more professionals. The Group further strengthened the training of employees in order to meet the Company's further development needs.

The remuneration policy of the Group is designed to ensure that the remuneration is market competitive and is in line with the development objectives and business performance of the Group. The remuneration package includes basic salary, discretionary bonus, insurance and fringe benefits. Salary standards are based on factors such as employee qualifications, experience, job duties, performance and market conditions. The discretionary bonus is subject to the performance-based incentive policy.

In order to enhance the operational capacity of the employees, the Group actively encouraged its employees to attend continuing education and training programmes by providing subsidies as well as providing professional training according to the Company's strategic objectives and working needs on a target-oriented basis.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Directors

Mr. HUANG Xiaofeng, aged 60, was appointed a Non-Executive Director of the Company on 26 June 2008. He was appointed the Chairman and re-designated as an Executive Director of the Company with effect from 11 November 2010. Mr. Huang graduated from South China Normal University, the People's Republic of China ("PRC") and holds a Bachelor's degree in History. He also holds a Master's degree in Public Administration from Sun Yat-Sen University, PRC. From 1987 to 1999, Mr. Huang worked for the General Office of the Communist Party of China ("CPC") Guangdong Provincial Committee in a number of positions. Between 1999 and 2003, Mr. Huang was the Deputy Director General of the General Office of the CPC Guangzhou Committee and thereafter the Deputy Secretary General of the CPC Guangzhou Committee. Between 2003 and 2008, Mr. Huang was the Deputy Director General of the General Office of the Guangdong Provincial Government and then the Deputy Secretary General of the Guangdong Provincial Government. Mr. Huang was appointed a Director and a Deputy General Manager of 廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings") in April 2008 and was subsequently appointed an Executive Director and a Deputy General Manager of GDH Limited ("GDH"). He was appointed the Chairman of Guangdong Holdings and GDH in September 2010 and October 2010, respectively. Mr. Huang was the General Manager of both Guangdong Holdings and GDH during the period from February 2009 to May 2012. Guangdong Holdings and GDH are the ultimate controlling shareholder and the immediate controlling shareholder of the Company, respectively. Mr. Huang is also the Chairman and a Non-Executive Director of Guangdong Land Holdings Limited ("GD Land"), a subsidiary of the Company. GD Land is listed in Hong Kong.

Mr. WEN Yinheng, aged 41, was appointed an Executive Director and the Managing Director of the Company on 15 November 2012. Mr. Wen holds a Bachelor's degree in Economics from Jinan University, PRC, and a Master of Commerce degree in International Professional Accounting from the University of New South Wales, Australia. From 2003 to 2006, Mr. Wen worked in Guangdong Bureau and Listed Company Supervision Department of China Securities Regulatory Commission, supervising the merger, acquisition and restructuring activities of listed companies. Between 2006 and 2011, he worked for Dalian Commodity Exchange and held a number of positions including Director of the Surveillance Department. Mr. Wen joined the Company in November 2011 and acted as a Deputy General Manager of the Company from November 2011 till November 2012. He is also a director of Guangdong Water Group (H.K.) Limited, Teem Holdings Limited, 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited▲), Tianjin Teem Shopping Center Co., Ltd., Guangdong (International) Hotel Management Holdings Limited and 廣東粵海投資財務管理有限公司 (Guangdong Yuehai Investment Financial Management Limited▲), all of which are subsidiaries of the Company.

Mrs. HO LAM Lai Ping, Theresa, aged 63, was appointed an Executive Director of the Company on 30 October 2015. Mrs. Ho is a Fellow of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She graduated from the Hong Kong Polytechnic and has been the Company Secretary of the Company since December 1992. Mrs. Ho was appointed a Deputy General Manager of the Company during the period from September 2011 to November 2012 and has acted as the Executive Deputy General Manager of the Company since November 2012. She was also a Director of the Company for the period from July 1996 to May 2000. She was a Non-Executive Director of Guangdong Tannery Limited ("GD Tannery"). GD Tannery is a subsidiary of GDH and is listed in Hong Kong. Mrs. Ho is also a director of certain subsidiaries of the Company.

Mr. TSANG Hon Nam, aged 49, was appointed an Executive Director and the Chief Financial Officer of the Company on 17 April 2008. Mr. Tsang graduated from The Chinese University of Hong Kong and holds a Bachelor's degree in Science. He is an Associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Tsang acted as an Executive Director and the Chief Financial Officer of Guangnan Holdings Limited ("Guangnan Holdings") during the period from February 2004 to April 2008. Guangnan Holdings is a subsidiary of GDH and is listed in Hong Kong. Before joining Guangnan Holdings, he was the Deputy General Manager of the Finance Department of GDH and had also worked for Guangdong Enterprises (Holdings) Limited. He is also a director of certain subsidiaries of the Company.

Mr. CAI Yong, aged 53, was appointed a Non-Executive Director of the Company on 25 August 2016. Mr. Cai holds a Master's degree in Business Administration from the South China University of Technology, PRC. Between 1991 and 2016, he worked for a number of departments of the People's Government of Guangdong Province in various positions including Deputy Director of the Economic and Trade Commission, Deputy Director of the Economic and Information Commission and Deputy Director of Department of Commerce. Mr. Cai was appointed a Director and the General Manager of Guangdong Holdings in January 2016 and an Executive Director and the General Manager of GDH in May 2016.

Mr. ZHANG Hui, aged 60, was appointed an Executive Director of the Company on 28 October 2002 and was subsequently appointed the Managing Director of the Company in December 2002. He was re-designated as a Non-Executive Director of the Company on 15 November 2012. Mr. Zhang holds a Master's degree in Business Administration from International East-West University, USA. He worked for the Guangdong Province Dongshen Water Supply Management Bureau from August 1991 to September 2000 in a number of positions, including Section Chief and Vice President. Mr. Zhang joined the Company in July 2002. He was a Deputy General Manager of Guangdong Holdings from May 2012 to January 2019 and held the positions of Director and Executive Director of GDH from December 2008 to March 2019 and from May 2012 to March 2019, respectively.

Ms. ZHAO Chunxiao, aged 49, was appointed a Non-Executive Director of the Company on 30 August 2011. Ms. Zhao graduated from Liaoning Normal University, PRC (Faculty of Chinese Studies) and the School of China Journalism and Communication (major in Domestic News) and obtained two Bachelor's degrees. She also holds a degree of Executive Master of Business Administration from The Hong Kong University of Science and Technology. From 1994 to 2002, she worked for the Guangdong Branch of Xinhua News Agency as Director of the Finance Office and also Director of the Featured News Division. Between 2003 and 2008, she held a number of positions in Asia Television Limited (Hong Kong) including Director of Information Division of News and Public Relations Department and Assistant Vice President. Ms. Zhao joined GDH and Guangdong Holdings in December 2008 and January 2009, respectively. Ms. Zhao acts as a Deputy General Manager and the Chief Administration Officer of Guangdong Holdings and an Executive Director, the Chief Administration Officer and the Company Secretary of GDH. She is an Executive Director and the Chief Executive Officer of GD Land.

Mr. LAN Runing, aged 50, was appointed a Non-Executive Director of the Company on 12 January 2015. Mr. Lan graduated from Sun Yat-Sen University, PRC and obtained a Bachelor's degree in Philosophy. He also obtained a Master's degree in Business Management from South China University of Technology, PRC. From 1996 to 2008, he held a number of positions at the General Office of CPC Guangdong Provincial Committee. Between 2008 and 2014, he worked as the Director of Personnel Affairs (4th Division) of CPC Guangdong Provincial Committee's Organisation Department. Mr. Lan was appointed a Deputy General Manager of Guangdong Holdings in April 2014, and also an Executive Director of GDH in May 2014.

Mr. LI Wai Keung, aged 62, was appointed a Non-Executive Director of the Company on 30 May 2000. He acted as an Executive Director and the Chief Financial Officer of the Company from 19 July 2006 to 16 April 2008 and was re-designated as a Non-Executive Director of the Company on 17 April 2008. Mr. Li graduated from the Hong Kong Polytechnic and holds a Master's degree in Business Administration from the University of East Asia. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a standing committee member of the Chinese People's Political Consultative Conference Guangdong Provincial Committee. Mr. Li had worked for Henderson Land Development Company Limited. He is an Executive Director and the Chief Financial Officer of GDH and also the Chief Financial Officer of Guangdong Holdings. He is also a Director of 永順泰麥芽(中國)有限公司 (Supertime Malting Company Limited▲) ("Supertime") and GDH Finance Co., Ltd. ("GDH Finance"). Supertime is a subsidiary of GDH and GDH Finance is a subsidiary of Guangdong Holdings. Mr. Li is also an Independent Non-Executive Director of Shenzhen Investment Limited, Hans Energy Company Limited and China South City Holdings Limited (these three companies are listed in Hong Kong). Mr. Li is an Advisor to the Management Accounting of the Ministry of Finance, PRC, the Chairman of the Council of the Hong Kong Chinese Orchestra Limited, a Director of the China Overseas Friendship Association, the Vice Chairman and Secretary of the Financial and Accounting Affairs Steering Committee of the Hong Kong Chinese Enterprises Association and a director and the Honorary President of the Hong Kong Business Accountants Association. He is also an Executive Director and the Company Secretary of GD Land as well as a director of certain other subsidiaries of the Company.

Dr. CHAN Cho Chak, John, *GBS, JP*, aged 75, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

Dr. Chan is also Deputy Chairman and Independent Non-Executive Director of Transport International Holdings Limited and an Independent Non-Executive Director of Hang Seng Bank Limited, both being public listed companies in Hong Kong. He is also a Non-Executive Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. Dr. Chan is Chairman of the Court of The Hong Kong University of Science and Technology and Chairman and Non-Executive Director of Hong Kong News-Expo Limited. He is also a Board Member of The Community Chest of Hong Kong and a member of its Executive Committee.

Dr. Chan was educated in Hong Kong and graduated from The University of Hong Kong in 1964 with an Honours Degree in English Literature. He later obtained a Diploma in Management Studies from the same university following the completion of evening studies. He was awarded the degree of Doctor of Business Administration (honoris causa) by the International Management Centres in October 1997 and the degree of Doctor of Social Sciences (honoris causa) by The Hong Kong University of Science and Technology in November 2009, The University of Hong Kong in March 2011 and Lingnan University in November 2012.

Dr. Chan served in the Hong Kong Government for two periods: from 1964 to 1978 and from 1980 to 1993. Initially appointed as an Executive Officer Class II, he rose through the ranks of the civil service to become one of the Cabinet-level Policy Secretaries of the Government. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a Member of the Executive Council from October 1992 to May 1993.

Dr. Chan was also the Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 to 1980, the Managing Director of The Kowloon Motor Bus Company (1933) Limited from 1993 to 2006, the Managing Director of Transport International Holdings Limited from 1997 to April 2008 and the Chairman of The Hong Kong Jockey Club from 2006 to August 2010. He was a Director of Swire Properties Limited from April 2010 to March 2017 during which he acted as an Independent Non-Executive Director from December 2011 to March 2017. Dr. Chan was also the Chairman and a Non-Executive Director of RoadShow Holdings Limited from January 2001 to December 2017.

Dr. Chan was appointed as a Justice of the Peace (JP) in 1994 and was awarded the Gold Bauhinia Star (GBS) in 1999.

Dr. the Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur*, aged 80, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

Dr. Li is Chairman and Chief Executive of The Bank of East Asia, Limited. He is an Independent Non-Executive Director of The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. All of the above companies are public listed companies in Hong Kong. He is also a Director of Hong Kong Interbank Clearing Limited. He was an Independent Non-Executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited) and PCCW Limited.

Dr. Li is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Executive Council of Hong Kong from 2005 to 2008 and the Legislative Council of Hong Kong from 1985 to 2012.

Mr. FUNG Daniel Richard, *SBS, QC, SC, JP*, aged 65, was appointed an Independent Non-Executive Director of the Company on 3 January 2000.

Mr. Fung is Senior Counsel of the Hong Kong Bar. Called to the English Bar at Middle Temple in 1975 and admitted to the Hong Kong Bar in 1977, Mr. Fung has been in continuous practice for over four decades, achieving in 1990 appointment as Queen's Counsel. In 1994, Mr. Fung became the first person of Chinese extraction to serve as Solicitor General of Hong Kong, a position he occupied for four years, becoming in 1997 the first Solicitor General of the Hong Kong Special Administrative Region of the PRC. In 1998, Mr. Fung left public office to take up successive appointments as Visiting Scholar at Harvard Law School (1998-1999) and Senior Visiting Fellow at Yale Law School (1999).

Mr. Fung is currently serving on his fourth consecutive term as a National Delegate to the Chinese People's Political Consultative Conference. He is Chairman of the United Nations Peace & Development Foundation, President of the International Law Association (ILA) Hong Kong Chapter, Chairman of the Board of International Bridges to Justice (IBJ), Advisory Board Member of Global Thinkers Forum (GTF), Vice Chairman of the American Renewable Energy Institute (AREI), Senior Fellow of the Salzburg Global Seminar (SGS), Vice-President of the Academy of Experts, Member of the Board of Governors of the East West Center (EWC), Advisory Committee Member of the American Bar Association/United Nations Development Program (UNDP) Legal Resource Unit, Council Member of China Law Society (CLS), Founding Governor of the China-US Exchange Foundation, Member of the Hengqin New Area Development Consultative Committee, Chairman of Social Sciences Advisory Board of Lingnan University, Honorary Lecturer in the Department of Professional Legal Education of The University of Hong Kong, Fellow of the Chartered Institute of Arbitrators and Arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC).

Mr. Fung served as Chairman of the Broadcasting Authority (2002-2008), Member of the World Bank International Advisory Council on Law and Justice (1999-2005), a member of the Hong Kong Government's Strategic Development Commission (2006-2012), a non-executive director of Securities & Futures Commission (1998-2004), a board member of the Airport Authority Hong Kong (1999-2005), a member of the Basic Law Consultative Committee (1985-1990) and the Central Policy Unit of the Hong Kong Government (1993-1994) respectively, Distinguished Fulbright Scholar for Hong Kong in the Year 2000, Adjunct Professor of City University of Hong Kong (2005-2017), International Consultant to the UNDP on Corporate Governance in the PRC, Special Advisor to the UNDP on the Rule of Law Development Program in Cambodia and in Laos (2000-2002), Council Member of International Institute for Strategic Studies (IISS) (2004-2012), member of the World Economic Forum Global Agenda Council (2009-2013) and Arbitrator of the Shanghai International Economic and Trade Arbitration Commission (2012-2018).

In 2003, Mr. Fung was awarded the Silver Bauhinia Star for services to constitutional development in Hong Kong and made a Justice of the Peace in 2004. In 2011, Mr. Fung was honored by UNDP in recognition of his contribution to the work of UNDP China and the United Nations Millennium Development Goals.

Dr. the Honourable CHENG Mo Chi, Moses, *GBM, GBS, OBE, JP*, aged 69, was appointed an Independent Non-Executive Director of the Company on 25 November 1999 and was re-designated as a Non-Executive Director of the Company on 13 October 2004. He was further re-designated as an Independent Non-Executive Director of the Company on 15 November 2012.

Dr. Cheng is a practising solicitor and a consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is also Chairman of the Insurance Authority and a member of the Financial Leaders Forum of the Hong Kong Government. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, K. Wah International Holdings Limited, Kader Holdings Company Limited, Liu Chong Hing Investment Limited, Tian An China Investments Company Limited and Towngas China Company Limited, all being public listed companies in Hong Kong. He was appointed an Independent Non-Executive Director of The Hong Kong and China Gas Company Limited, a public listed company in Hong Kong, on 14 January 2019. He is also an Independent Non-Executive Director of OTC Clearing Hong Kong Limited, a subsidiary of the Hong Kong Exchanges and Clearing Limited. Dr. Cheng was an Independent Non-Executive Director of ARA Asset Management Limited whose shares were formerly listed on Singapore Exchange Limited.

Mr. WU Ting Yuk, Anthony, *Standing Committee Member, Chinese People's Political Consultative Conference National Committee, GBS, JP*, aged 64, was appointed an Independent Non-Executive Director of the Company on 25 August 2012. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and an Honorary Fellow of the Hong Kong College of Community Medicine. He is a Council Member of the Hong Kong General Chamber of Commerce, a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development, a trustee of The Society for the Aid and Rehabilitation of Drug Abusers, a member of the State Council's Medical Reform Leadership Advisory Committee, PRC, a member of the Public Policy Advisory Committee and Advisor of National Health Commission, PRC, the Principal Advisor to the State Administration of Traditional Chinese Medicine, PRC, a member of the Chinese Medicine Reform and Development Advisory Committee, PRC, the Chairman of the China Oxford Scholarship Fund, an Honorary Professor of Faculty of Medicine of The Chinese University of Hong Kong and the Peking Union Medical College Hospital and the Honorary Chairman of the Institute of Certified Management Accountants, Australia (Hong Kong Branch). He also acts as the Chief Advisor to MUFG Bank, Ltd. Mr. Wu is the Chairman and an Independent Non-Executive Director of China Resources Medical Holdings Company Limited (formerly known as China Resources Phoenix Healthcare Holdings Company Limited), a public listed company in Hong Kong. He is also an Independent Non-Executive Director of China Taiping Insurance Holdings Company Limited, Power Assets Holdings Limited and CStone Pharmaceuticals, all being public listed companies in Hong Kong. Mr. Wu was formerly the Chairman of the Hong Kong General Chamber of Commerce, the Bauhinia Foundation Research Centre and the Hong Kong Hospital Authority and a member of the Task Force on Land Supply. He was also the Deputy Chairman and Executive Director of Sincere Watch (Hong Kong) Limited and an Independent Non-Executive Director of Fidelity Funds and Agricultural Bank of China Limited.

Mr. Wu was appointed as Justice of the Peace in 2004 and was awarded the honour of the Gold Bauhinia Star in 2008.

Senior Management

The senior management of the Group comprises the Executive Directors above, namely, Mr. Huang Xiaofeng, Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa and Mr. Tsang Hon Nam.

DIRECTORS' REPORT

The directors (the "Directors") of Guangdong Investment Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2018.

Principal Activities

The Group was principally engaged in investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects and road and bridge operation. Details of the principal activities of the principal subsidiaries and associates are set out in notes 1 and 17 to the financial statements, respectively.

Results and Dividends

The results of the Group for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the financial statements on pages 61 and 63 to 64.

An interim dividend of HK 16.0 cents (2017: HK 14.5 cents) per ordinary share was paid on 26 October 2018. The board of Directors (the "Board") has resolved to recommend the payment of a final dividend of HK 37.5 cents (2017: HK 34.0 cents) per ordinary share for the year ended 31 December 2018.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Monday, 17 June 2019 (the "2019 AGM"), is expected to be paid on or about Friday, 26 July 2019 to shareholders whose names appear on the register of members of the Company on Friday, 21 June 2019.

In order to qualify for attending and voting at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 11 June 2019.

The register of members of the Company will be closed on Friday, 21 June 2019 for the purpose of determining shareholders' entitlement to the proposed final dividend. On that day, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with Tricor Tengis Limited at the above address not later than 4:30 p.m. on Thursday, 20 June 2019.

Business Review

A review of the business of the Group during the year, a discussion on the Group's future business development and principal risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 14 and 15 and Management Discussion and Analysis on pages 16 to 26 of this Annual Report. The financial risk management objectives and policies of the Group are shown in note 45 to the financial statements on pages 177 to 180 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on pages 6 to 13 of this Annual Report. Discussion on the Group's environmental issues and compliance with the relevant laws and regulations that have a significant impact on the Company are contained in the Corporate Governance Report on pages 45 to 55 of this Annual Report. The Company's key relationships with its employees, customers and suppliers and business associates that have a significant impact on the Company and on which the Company's success depends are shown in the Management Discussion and Analysis under "Employee and Remuneration Policy" section on page 26, and in the Corporate Governance Report on pages 45 to 55 of this Annual Report. The above discussion and analysis form part of this Directors' Report.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years extracted from the audited financial statements is set out below:

Results

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
REVENUE	**13,363,600**	12,168,839	10,464,202	9,171,959	8,426,285
PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	**6,758,049**	7,519,212	5,573,025	4,921,169	5,789,402
Share of profits less losses of associates	**136,597**	101,553	179,005	325,079	311,546
PROFIT BEFORE TAX	**6,894,646**	7,620,765	5,752,030	5,246,248	6,100,948
INCOME TAX EXPENSE	**(1,393,558)**	(1,617,111)	(1,099,632)	(956,949)	(1,138,168)
PROFIT BEFORE NON-CONTROLLING INTERESTS	**5,501,088**	6,003,654	4,652,398	4,289,299	4,962,780
Non-controlling interests	**(485,969)**	(318,283)	(440,361)	(384,022)	(565,650)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**5,015,119**	5,685,371	4,212,037	3,905,277	4,397,130

Assets, liabilities and non-controlling interests

	As at 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
PROPERTY, PLANT AND EQUIPMENT	**7,017,886**	7,484,561	6,691,743	7,083,391	3,649,550
INVESTMENT PROPERTIES	**16,949,174**	16,037,772	12,561,194	12,326,764	12,113,823
PREPAID LAND LEASE PAYMENTS	**306,824**	275,582	264,498	295,013	173,107
GOODWILL	**301,883**	303,605	301,150	303,521	307,533
INVESTMENTS IN ASSOCIATES	**3,676,701**	3,679,684	1,716,163	1,892,870	1,659,479
OPERATING CONCESSION RIGHTS	**13,047,462**	14,113,313	14,140,407	15,218,717	12,858,007
RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS	**1,464,719**	934,765	427,536	447,214	472,213
RECEIVABLES UNDER A COOPERATIVE ARRANGEMENT	**414,701**	–	–	–	–
PROPERTIES HELD FOR SALE UNDER DEVELOPMENT	**5,831,502**	5,748,595	–	–	–
COMPLETED PROPERTIES HELD FOR SALE	**5,053,081**	417,595	–	–	–
OTHER ASSETS	**18,866,492**	17,384,809	15,966,159	16,495,774	16,340,549
DEFERRED TAX ASSETS	**252,019**	158,733	61,507	46,726	41,104
TOTAL ASSETS	**73,182,444**	66,539,014	52,130,357	54,109,990	47,615,365
OTHER LOANS AND LIABILITIES	**(17,449,731)**	(12,526,900)	(11,377,811)	(14,106,348)	(9,564,607)
DEFERRED TAX LIABILITIES	**(6,272,264)**	(4,848,546)	(2,513,860)	(2,736,217)	(2,386,607)
TOTAL LIABILITIES	**(23,721,995)**	(17,375,446)	(13,891,671)	(16,842,565)	(11,951,214)
NON-CONTROLLING INTERESTS	**(9,088,194)**	(8,949,109)	(6,016,718)	(5,795,281)	(5,397,407)
TOTAL EQUITY	**49,460,449**	49,163,568	38,238,686	37,267,425	35,664,151

Major Properties

Details of the major properties held by the Group as at 31 December 2018 are set out on pages 183 and 184 of this Annual Report.

Equity-Linked Agreements

Save as disclosed in the section headed "Share Option Scheme Adopted on 24 October 2008" (the scheme expired in October 2018) of this report and "Share Option Scheme" in note 31 to the financial statements, no equity-linked agreement was entered into by the Company or was subsisting at the end of the year or at any time during the year.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2018, calculated under the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, amounted to HK$2,802,919,000 (2017: HK$3,922,597,000).

Donations

The donations made by the Group during the year amounted to HK$531,000 (2017: HK$300,000).

Arrangement to Acquire Shares or Debentures

Save as disclosed in the section headed "Share Option Scheme Adopted on 24 October 2008" of this report and "Share Option Scheme" in note 31 to the financial statements, at no time during the year was the Company or the Company's subsidiary or parent company or a subsidiary of the Company's parent company a party to any arrangements to enable Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors

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

Executive Directors
Huang Xiaofeng *(Chairman)*
Wen Yinheng *(Managing Director)*
Ho Lam Lai Ping, Theresa *(Company Secretary)*
Tsang Hon Nam *(Chief Financial Officer)*

Non-Executive Directors
Cai Yong
Zhang Hui
Zhao Chunxiao
Lan Runing
Li Wai Keung

Independent Non-Executive Directors
Chan Cho Chak, John
Li Kwok Po, David
Fung Daniel Richard
Cheng Mo Chi, Moses
Wu Ting Yuk, Anthony

Directors (Continued)

In accordance with Articles 77 to 79 of the Company's Articles of Association, Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa, Mr. Cai Yong, Mr. Zhang Hui, Dr. Chan Cho Chak, John and Mr. Wu Ting Yuk, Anthony will retire by rotation at the 2019 AGM and shall be eligible for re-election.

Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa, Mr. Cai Yong, Dr. Chan Cho Chak, John and Mr. Wu Ting Yuk, Anthony, being eligible, have offered themselves for re-election and if re-elected, will hold office from the date of re-election to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2022, and (ii) 30 June 2022, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

As Mr. Zhang Hui has reached his retirement age, he will not offer himself for re-election and will retire from office after the conclusion of the 2019 AGM.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company included in the consolidated financial statements during the year ended 31 December 2018 and up to the date of this report is kept at the Company's registered office and is available for inspection by the members of the Company free of charge during business hours.

Directors' Service Contracts

None of the Directors proposed for re-election at the 2019 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Material Interests in Transactions, Arrangements or Contracts

Mr. Huang Xiaofeng and Mr. Cai Yong are directors of 廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings") (the Company's ultimate holding company) and GDH Limited ("GDH") (the Company's immediate holding company). Mr. Zhang Hui, Ms. Zhao Chunxiao, Mr. Lan Runing and Mr. Li Wai Keung are/were directors of GDH. They were deemed to be interested in the connected transactions or continuing connected transactions described in the section headed "Connected Transactions" in note 40 to the financial statements, as the case may be.

Save as disclosed above, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Permitted Indemnity Provision

Indemnity provision within the meaning of permitted indemnity provision under the Hong Kong Companies Ordinance for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2018. In addition, the Company has taken out and kept in force appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company and its subsidiaries.

Directors' Interests in Competing Businesses

The interests of Directors in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year and up to the date of this report are as follows:

1. Core Business Activities of the Group

(1) Water resources
(2) Property investment and development
(3) Department store operation
(4) Hotel ownership and operation
(5) Hotel management
(6) Investments in energy projects
(7) Road and bridge operation

2. Interests in Competing Businesses

Name of Director	Name of Company	Nature of Interests	Competing Business
Huang Xiaofeng	Guangdong Holdings	Chairman	(1), (2) & (4)
	GDH	Chairman	(1), (2) & (4)
Cai Yong	Guangdong Holdings	Director & General Manager	(1), (2) & (4)
	GDH	Executive Director & General Manager	(1), (2) & (4)
Zhang Hui	GDH	Executive Director	(1), (2) & (4)
Zhao Chunxiao	GDH	Executive Director	(1), (2) & (4)
Lan Runing	GDH	Executive Director	(1), (2) & (4)
Li Wai Keung	GDH	Executive Director	(1), (2) & (4)

For safeguarding the interest of the Group, the Independent Non-Executive Directors of the Company and the Audit Committee review the financial and operational results of the Group from time to time as appropriate so that the Group is capable of carrying on its businesses independently, and at arm's length from those of Guangdong Holdings and GDH.

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 and Short Positions in Securities

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Interests and short positions in the Company

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Huang Xiaofeng	Personal	2,595,580	Long position	0.040%
Ho Lam Lai Ping, Theresa	Personal	879,200	Long position	0.013%
Zhang Hui	Personal	2,106,130	Long position	0.032%
Zhao Chunxiao	Personal	582,170	Long position	0.009%
Li Wai Keung	Personal	1,927,160	Long position	0.029%
Chan Cho Chak, John	Personal	5,450,000	Long position	0.083%
Li Kwok Po, David	Personal	20,000,000	Long position	0.306%
Cheng Mo Chi, Moses	Personal	2,268,000	Long position	0.035%

Note: The approximate percentage of interests held was calculated on the basis of 6,537,821,440 ordinary shares of the Company in issue as at 31 December 2018.

Interests and short positions in Guangdong Land Holdings Limited

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Huang Xiaofeng	Personal	3,880,000	Long position	0.227%
Ho Lam Lai Ping, Theresa	Personal	398,000	Long position	0.023%
Cheng Mo Chi, Moses	Personal	600,000	Long position	0.035%

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of Guangdong Land Holdings Limited in issue as at 31 December 2018.

Interests and short positions in Guangnan (Holdings) Limited

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Tsang Hon Nam	Personal	300,000	Long position	0.033%
Li Kwok Po, David	Personal	15,000	Long position	0.002%

Note: The approximate percentage of interests held was calculated on the basis of 907,593,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 31 December 2018.

Directors' Interests and Short Positions in Securities (Continued)

Interests and short positions in Guangdong Tannery Limited

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Ho Lam Lai Ping, Theresa	Personal	200,000	Long position	0.037%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions 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: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests

As at 31 December 2018, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short Position	Approximate percentage of interests held *(Note 1)*
Guangdong Holdings *(Note 2)*	Interest in controlled corporation	3,693,453,546	Long position	56.49%
GDH *(Note 3)*	Beneficial owner/Interest in controlled corporation	3,693,453,546	Long position	56.49%
Guangdong Trust Ltd.	Beneficial owner/Interest in controlled corporation	576,404,918	Long position	8.82%

Notes:

1. *The approximate percentage of interests held was calculated on the basis of 6,537,821,440 ordinary shares of the Company in issue as at 31 December 2018.*

2. *The attributable interest which Guangdong Holdings has in the Company is held through its 100% direct interest in GDH.*

3. *The interests of GDH set out above include attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.*

Save as disclosed above, as at 31 December 2018, no other person (other than a Director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Significant Contract with Controlling Shareholders

Save as disclosed in notes 39 and 40 to the financial statements, the Group and the controlling shareholders of the Company had not entered into any contract of significance during the year.

Connected Transactions

Details of the connected transactions and continuing connected transactions that are not exempt from annual reporting requirement in Chapter 14A of the Listing Rules are disclosed in note 40 to the financial statements.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 39 to the financial statements. The transactions described in note 39(b) (notes (ii) to (v)) to the financial statements constitute connected transactions and the transactions described in note 39(a) (notes (i) to (iii) and (vii)) to the financial statements constitute continuing connected transactions discloseable under the Listing Rules, the details of which are disclosed in note 40 to the financial statements. In respect of these transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The transactions described in note 39(a) (notes (v), (vi) and (viii)) to the financial statements constitute fully exempt continuing connected transactions under the Listing Rules. None of the remaining related party transactions as disclosed in note 39 to the financial statements is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Share Option Scheme Adopted on 24 October 2008 (the "2008 Scheme")

For the year ended 31 December 2018, the Directors of the Company and certain other eligible persons had the following interests in rights to subscribe for the ordinary shares of the Company granted under the 2008 Scheme. Each share option entitled the holder to subscribe for one ordinary share of the Company. Further details are set out in note 31 to the financial statements.

		Number of share options									
Category of participants	Date of grant of share options (dd.mm.yyyy)	At date of grant	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2018	Total consideration paid for share options granted HK$	Exercise price of share options* HK$ (per share)	Price of ordinary share at date immediately before date of grant** HK$ (per share)	Price of ordinary share at date immediately before the exercise date** HK$ (per share)
(i) Director											
Huang Xiaofeng	22.01.2013	2,693,000	877,420	–	–	(877,420)	–	–	6.20	6.30	–
Wen Yinheng	22.01.2013	1,395,000	454,330	–	–	(454,330)	–	–	6.20	6.30	–
Ho Lam Lai Ping, Theresa	22.01.2013	1,256,000	376,800	–	–	(376,800)	–	–	6.20	6.30	–
Tsang Hon Nam	22.01.2013	1,256,000	376,800	–	–	(376,800)	–	–	6.20	6.30	–
Zhang Hui	22.01.2013	2,268,000	770,870	–	–	(770,870)	–	–	6.20	6.30	–
Zhao Chunxiao	22.01.2013	2,268,000	778,630	–	–	(778,630)	–	–	6.20	6.30	–
Li Wai Keung	22.01.2013	2,243,000	815,840	–	–	(815,840)	–	–	6.20	6.30	–
(ii) Employees	22.01.2013	19,202,000	4,515,340	–	–	(4,515,340)	–	–	6.20	6.30	–

Share Option Scheme Adopted on 24 October 2008 (the "2008 Scheme") (Continued)

Notes to the above share options granted pursuant to the 2008 Scheme:

(a) *The option period of all the share options was five years and six months from the date of grant.*

(b) *Any share option was only exercisable during the option period after it has become vested.*

(c) *The normal vesting scale of the share options was as follows:*

Date	Percentage Vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) *The vesting of the share options was further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.*

(e) *The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or which has lapsed) was as follows:*

Date on which event occurs	Percentage Vesting
Before the date which was four months after the date of grant	0%
On or after the date which was four months after but before the date which was one year after the date of grant	10%
On or after the date which was one year after but before the date which was two years after the date of grant	25%
On or after the date which was two years after but before the date which was three years after the date of grant	40%
On or after the date which was three years after but before the date which was four years after the date of grant	70%
On or after the date which was four years after the date of grant	80% The remaining 20% also vested upon passing the overall performance appraisal for those four years

(f) * *The exercise price of the share options was subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.*

** *The price of the Company's ordinary share disclosed as "at date immediately before date of grant" of the share options was the closing price on the Hong Kong Stock Exchange on the business day prior to which the share options were granted.*

The price of the Company's ordinary share disclosed as "at date immediately before the exercise date" of the share options was the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the share options were exercised by each of the Directors or all other participants as an aggregate whole.

The 2008 Scheme expired in October 2018.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for 57% of the total revenue for the year and sales to the Group's largest customer included therein amounted to 36%. Purchases from the Group's five largest suppliers accounted for 21% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 8%.

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers and suppliers.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Disclosure under Rule 13.21 of the Listing Rules

Facility Agreement dated 21 June 2018

Pursuant to a facility agreement (the "GDI June 2018 Facility Agreement") entered into between the Company and a bank on 21 June 2018 in relation to a three-year term loan facility (the "GDI June 2018 Facility") in the principal amount of HK$2,000 million made available by the bank to the Company, among others, it shall be an event of default if:

(i) GDH ceases to beneficially own, directly or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial People's Government of the People's Republic of China (the "Guangdong Provincial Government") ceases to beneficially own, directly or indirectly, 100% of the shareholding in GDH.

If an event of default under the GDI June 2018 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI June 2018 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the GDI June 2018 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI June 2018 Facility as at 31 December 2018 amounted to HK$2,000 million.

Disclosure under Rule 13.21 of the Listing Rules (Continued)

Facility Agreement dated 3 July 2018

Pursuant to a facility agreement (the "GDI July 2018 Facility Agreement") entered into between the Company and a bank on 3 July 2018 in relation to a three-year term loan facility (the "GDI July 2018 Facility") in the principal amount of HK$3,070 million made available by the bank to the Company, among others, it shall be an event of default if:

(i) GDH ceases to beneficially own, directly and/or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial Government ceases to beneficially own, directly and/or indirectly, 100% of the shareholding in GDH.

If an event of default under the GDI July 2018 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI July 2018 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the GDI July 2018 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI July 2018 Facility as at 31 December 2018 amounted to HK$3,070 million.

Facility Agreement dated 31 December 2018

Pursuant to a facility agreement (the "GDI December 2018 Facility Agreement") entered into between the Company and a bank on 31 December 2018 in relation to a one-year Australian Dollar term loan facility (the "GDI December 2018 Facility") in an amount equivalent to HK$500 million made available by the bank to the Company, among others, it shall be an event of default if:

(i) GDH ceases to beneficially own, directly and/or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial Government ceases to beneficially own, directly and/or indirectly, 100% of the shareholding in GDH.

If an event of default under the GDI December 2018 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI December 2018 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loan, together with accrued interest, and all other amounts accrued or outstanding under the GDI December 2018 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loan be payable on demand, whereupon they shall immediately become payable on demand by the bank.

There was no outstanding principal under the GDI December 2018 Facility as at 31 December 2018.

Changes in Directors' Information

The changes in Directors' information are set out below:

(i) The remuneration package of Mr. Wen Yinheng was adjusted with effect from 1 January 2018. In addition, pursuant to the Company's policy, a new service contract with specific term was entered into between the Company and Mr. Wen in September 2018 according to which, the tenure of service of Mr. Wen is from 1 October 2018 to 31 December 2020. From 1 January 2018 to 30 September 2018, the remuneration package of Mr. Wen comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus and its corresponding mandatory provident fund contributions, amounted to approximately HK$811,000. From 1 October 2018 to 31 December 2018, the remuneration package of Mr. Wen comprising salary and pension scheme contributions, but excluding performance related bonus and its corresponding mandatory provident fund contributions, amounted to approximately HK$585,000.

Mr. Wen Yinheng ceased to act as chairman of 廣東粵海投資財務管理有限公司 (Guangdong Yuehai Investment Financial Management Limited▲), a subsidiary of the Company, with effect from 28 December 2018 but remains as a director thereof.

(ii) The remuneration package of Mrs. Ho Lam Lai Ping, Theresa was adjusted with effect from 1 January 2018. In addition, pursuant to the Company's policy, a new service contract with specific term was entered into between the Company and Mrs. Ho in September 2018 according to which, the tenure of service of Mrs. Ho is from 1 October 2018 to 31 December 2020. From 1 January 2018 to 30 September 2018, the remuneration package of Mrs. Ho comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus, amounted to approximately HK$1.648 million. From 1 October 2018 to 31 December 2018, the remuneration package of Mrs. Ho comprising salary and pension scheme contributions, but excluding performance related bonus, amounted to approximately HK$588,000.

(iii) The remuneration package of Mr. Tsang Hon Nam was adjusted with effect from 1 January 2018. In addition, pursuant to the Company's policy, a new service contract with specific term was entered into between the Company and Mr. Tsang in September 2018 according to which, the tenure of service of Mr. Tsang is from 1 October 2018 to 31 December 2020. From 1 January 2018 to 30 September 2018, the remuneration package of Mr. Tsang comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus, amounted to approximately HK$1.402 million. From 1 October 2018 to 31 December 2018, the remuneration package of Mr. Tsang comprising salary and pension scheme contributions, but excluding performance related bonus, amounted to approximately HK$492,000.

(iv) Mr. Zhang Hui ceased to be a Deputy General Manager of Guangdong Holdings with effect from 17 January 2019. He also ceased to be a Director and an Executive Director of GDH with effect from 29 March 2019.

(v) Dr. Li Kwok Po, David ceased to be an Independent Non-Executive Director of PCCW Limited with effect from 31 December 2018.

(vi) Dr. Cheng Mo Chi, Moses ceased to be the Chairman of the Process Review Panel for the Securities and Futures Commission with effect from 1 November 2018 and was appointed an Independent Non-Executive Director of The Hong Kong and China Gas Company Limited with effect from 14 January 2019.

(vii) Mr. Wu Ting Yuk, Anthony ceased to be the Deputy Chairman and Executive Director of Sincere Watch (Hong Kong) Limited with effect from 31 August 2018 and was appointed an Independent Non-Executive Director of CStone Pharmaceuticals with effect from 14 February 2019. He was a member of the Task Force on Land Supply, the term of which ended on 28 February 2019.

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

Auditor

The consolidated financial statements now presented have been audited by Ernst & Young, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment. A resolution will be proposed at the 2019 AGM for the re-appointment of Ernst & Young as the independent auditor of the Company.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

Business Model and Development Strategies

The principal businesses of the Group include investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects and road and bridge operation. The Group is committed to consolidating the operational development of its existing businesses and expanding its core businesses in order to generate continuous and steady investment returns for shareholders. Through optimising asset portfolio, strengthening capital management, enhancing management standard and corporate governance, further fortifying competitive strengths and enhancing the market influence of the Group, they stand to provide strong support for the enterprise's long-term, steady and sustainable development.

In line with its strategic development plan, the Group will continue with its investments in water resources management, property investment and development as well as infrastructure segment in a proactive and prudent manner. The Group continues to actively explore market investment opportunities in areas such as untreated water and urban water supply, sewage treatment and integrated water environment management. The Group will fasten the pace of project acquisitions and development of new business in an effort to further expand its scale, while continuing to optimize its asset structure and facilitate further business integration.

Faced with the trend of globalization, the Group will continue to capitalize on Hong Kong's status as an international financial centre, improve its capital utilization efficiency, strengthen its capital management capabilities and foster effective value enhancement of capital. Meanwhile, the Group will optimize its human resources operations and further improve the professionalism of its management. The Group will step up its efforts in strengthening corporate culture and enhance corporate core competencies.

Corporate Governance Code

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company had complied with the code provisions set out in the CG Code for the year ended 31 December 2018 and, where appropriate, the applicable recommended best practices of the CG Code.

Directors' Securities Transactions

The Company has adopted a code (the "Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors. In response to specific enquiries made, all Directors confirmed that they had complied with the required standards of dealings as set out in the Code during the year.

Board of Directors

The board of Directors (the "Board"), which is accountable to the shareholders of the Company, is responsible for the leadership and control of the Company and it oversees the Group's businesses, strategic decisions and performances. The management is entrusted by the Board with the authority and responsibility for the day-to-day management of the Group and assumes full accountability to the Board for the operation of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for the Board's approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements, rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

Board of Directors (continued)

Board Composition

As at the date of this Annual Report, the Board comprises four Executive Directors, being Mr. Huang Xiaofeng, Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa and Mr. Tsang Hon Nam, five Non-Executive Directors, being Mr. Cai Yong, Mr. Zhang Hui, Ms. Zhao Chunxiao, Mr. Lan Runing and Mr. Li Wai Keung, and five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony.

During the year, the Non-Executive Directors (including the Independent Non-Executive Directors) provided the Company with a diverse range of expertise and a balance of skills, and brought independent judgments on issues pertaining to strategic direction, development, performance and risk management through their contribution at Board meetings and committee meetings. They also reviewed investment proposals as well as internal audit reports.

The names of the Directors and their roles and functions are posted on the Company's website at www.gdi.com.hk.

Chairman and Managing Director

The Chairman of the Board is Mr. Huang Xiaofeng and the Managing Director is Mr. Wen Yinheng. The roles of the Chairman and the Managing Director of the Company are clearly defined and segregated to ensure independence and proper checks and balances.

On top of his executive responsibilities, the Chairman provides leadership to the Board and oversees its functioning to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. He is also responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by the Directors and the Company Secretary. With the support of the other Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's effective functioning. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to ensure effective communication with shareholders and other stakeholders as outlined in the latter part of this report.

Under the guidance and instructions of the Board, the Managing Director, leading the management of the Company, is accountable to the Board for the implementation of the Company's strategies and the coordination of various business operations.

Non-Executive Directors

All Directors (including Non-Executive Directors) appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the first general meeting after his or her appointment and shall be eligible for re-election.

Moreover, all Directors (including Non-Executive Directors and Independent Non-Executive Directors) of the Company are appointed for a term of not more than approximately three years expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election (as the case may be) of that Director, and (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election (as the case may be) of that Director and in any event, subject to earlier determination in accordance with the articles of association of the Company and/or any applicable laws and regulations.

Board of Directors (continued)

Independence of Independent Non-Executive Directors

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from the five Independent Non-Executive Directors, namely Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony in accordance with Rule 3.13 of the Listing Rules.

Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard and Dr. Cheng Mo Chi, Moses have served on the Board of the Company for more than nine years. They have clearly demonstrated diligence, their willingness to exercise independent judgement and to provide objective opinion to the management. There is no evidence that length of tenure is having any adverse impact on their independence. The Board therefore considers that Dr. Chan, Dr. Li, Mr. Fung and Dr. Cheng remain independent, notwithstanding the length of their tenure.

The Board as well as the Nomination Committee have reviewed the independence of all Independent Non-Executive Directors and have concluded that all of them are independent within the definition of the Listing Rules. Further, up to the date of this report, the Board is not aware of the occurrence of any events which would cause it to believe that the independence of any Independent Non-Executive Director has been impaired.

Contributions of Independent Non-Executive Directors

The Company strives to build an effective Board, whose capability is appropriate for the scale, complexity and strategic positioning of our business. With this in mind, the Independent Non-Executive Directors of the Company are highly regarded incumbents with the following expertise and experience present in one or more of them:

- Significant board, financial and general management experience across a range of sectors and knowledge of corporate governance issues;
- In-depth and up-to-date knowledge of the global markets and economic, political and regulatory development;
- Considerable experience and qualification in financial administration, banking, legal and/or compliance;
- Broad experience in government organisations, public bodies and/or regulatory authorities;
- Leadership role in large-scale companies or organizations;
- Deep knowledge of commercial expertise;
- Alert of corporate social responsibility issues.

They all have a wealth of experience in diverse fields and possess the requisite upright character, integrity and business insight for the proper discharge of their duties as independent directors. In pursuit of the Group's objectives and business endeavors, by offering independent and constructive advice, they provide valuable contributions and insights to the Board and instill integrity into every aspect of our business which is also aligned to our values. Their considerable pool of knowledge, experience, skills and expertise are crucial to the Board's deliberations. They have given the Board and the committees on which they serve the benefit of their diligence, skills, expertise and varied backgrounds and qualifications through active participation.

In addition, the Independent Non-Executive Directors act as custodian of the policies and practices that define and safeguard the reputation of the Company and are well placed to carry out their role. They have devoted time to satisfying themselves that our corporate governance practices and compliance policies accord with latest requirements. Their drive, enthusiasm and commitment, along with their proven ability to build and lead a strong Board, brings significant value to all stakeholders of the Group.

Relationship amongst Directors

The Board members do not have any financial, business, family or other material/relevant relationships with each other, thus ensuring strong independence across the Board.

Board of Directors (continued)

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") on 28 August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognizes and embraces the benefits of having a diverse Board and perceives increasing diversity at Board level as an essential element in contributing to the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to promote Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company also takes into consideration its own business model and specific needs from time to time. All Board appointments are based on meritocracy, and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board.

The Nomination Committee has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of board diversity of the Company. The Nomination Committee reviews the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this report, the Board comprises fourteen directors. Five of them are Independent Non-Executive Directors drawn from a diverse background, spanning business management, investment management, public administration, financial services, legal, compliance and accounting, thereby ensuring critical review and control of the management process. The Board has maintained a balanced composition in terms of gender, age, professional experience, skills and knowledge. It has performed effectively by providing sound judgment on strategic issues and effective oversight of and guidance to management. The biographies of the Directors as at the date of this report set out in pages 27 to 31 to this Annual Report demonstrate a diversity of skills, expertise, experience and qualifications.

Having reviewed the implementation of the Board Diversity Policy and the structure, size and composition of the Board, the Nomination Committee of the Board considered that the requirements of the Board Diversity Policy had been met.

Board Meeting

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's annual, interim and quarterly results. During the year, five Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "Board and Committees Meetings" of this report.

Regular Board meetings in each year are scheduled well in advance to facilitate maximum attendance of Directors. At least fourteen days' notice of a Board meeting is normally given to all Directors who are provided with an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at reasonable time on reasonable notice by any Director.

According to the current Board practice, if a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board Meeting rather than by a written resolution. The articles of association of the Company also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings for approving any transaction, contract or arrangement in which such Director or any of his/her associates (as defined in the Listing Rules) has a material interest. Every Director is entitled to have access to the Board papers and related materials as well as to the advice and services of the Company Secretary.

Directors’ Induction and Continuous Professional Development

Upon appointment to the Board, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant legal and regulatory requirements.

The Directors are briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong ordinances and corporate governance practices so that they can continuously update and further improve their relevant knowledge and skills. Some Directors attended seminars and conferences organized by government authorities, professional bodies and industrial organizations in relation to corporate governance, updates on laws, rules and regulations, accounting, financial, management or other professional skills. The Company has organized Directors’ training in August 2018 for the Directors on “Recent HKEX and Market Misconduct Tribunal decisions and enforcement cases”. Reading materials have also been provided to the Directors to develop and refresh their professional skills.

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2018.

Name of Director	In-house Directors’ training	Seminars, Conferences, Webcasts and Reading Materials
Huang Xiaofeng	✔	✔
Wen Yinheng	✔	✔
Ho Lam Lai Ping, Theresa	✔	✔
Tsang Hon Nam	✔	✔
Cai Yong	✔	✔
Zhang Hui	✔	✔
Zhao Chunxiao	✔	✔
Lan Runing	✔	✔
Li Wai Keung	✔	✔
Chan Cho Chak, John	✔	✔
Li Kwok Po, David	✔	✔
Fung Daniel Richard	✔	✔
Cheng Mo Chi, Moses	✔	✔
Wu Ting Yuk, Anthony	✔	✔

To ensure strong compliance culture at all levels of the Group and to foster good governance, directors and management of subsidiaries are encouraged to participate in continuous training to facilitate their understanding of their duties and obligations in respect of compliance with rules and regulations as well as environmental, social and corporate governance.

Board Committees

The Board has established various committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. For effective oversight and leadership, the Board receives updates/advice from the Board Committees from time to time. The terms of reference stipulating the respective authorities and responsibilities of these committees are available on the Company's website.

Remuneration Committee

The Remuneration Committee comprises all five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. Dr. Chan Cho Chak, John is the Chairman of the Remuneration Committee. The remuneration of the Directors shall be determined by the members of the Company at the general meetings. Approval has been granted by the shareholders at the annual general meeting in 2018 to authorise the Board to fix the remuneration of the Directors.

The Remuneration Committee advises on policies in regard to the remuneration of Directors and senior management of the Company and is authorised by the Board to determine the remuneration packages for individual Executive Director and senior management. Remuneration of the Executive Directors and senior management shall be determined by the Remuneration Committee with reference to their duties, responsibilities and performance, and the results of the Group. No Director shall be involved in deciding his/her own remuneration.

The meeting of the Remuneration Committee shall be held at least once a year and when necessary. During the financial year ended 31 December 2018, the Remuneration Committee had held five meetings and had passed one written resolution to approve the annual review of the remuneration packages and performance bonuses for the Executive Directors of the Company that came up for determination as well as the new employment contracts between the Company and those Executive Directors. The attendance of each member of the Remuneration Committee is set out in the section headed "Board and Committees Meetings" of this report.

Details of the amount of Directors' remuneration for the year 2018 are set out in note 8 to the financial statements.

Nomination Committee

The Nomination Committee comprises Mr. Huang Xiaofeng, Chairman of the Board, and all five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. Mr. Huang Xiaofeng is the Chairman of the Nomination Committee.

The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

The Board adopted a Directors' nomination policy (the "Nomination Policy") on 26 October 2018 to formally set out the criteria and process on the nomination and appointment of Directors. According to the Nomination Policy, the ultimate responsibility for selection and appointment of Directors rests with the entire Board or the shareholders in general meeting, as the case may be. The Board has delegated the relevant screening and evaluation process to the Nomination Committee, which identifies suitably qualified Director candidates and recommends them to the Board. In assessing the suitability of a proposed candidate, the Nomination Committee takes into consideration the candidate's character and integrity, qualifications, skills, knowledge, experiences relevant to the Company's business and corporate strategy, his/her commitment to enhancing shareholder value and devoting sufficient time to effectively carry out their duties, fulfilment of the independence requirements as set out in the Listing Rules (for Independent Non-Executive Directors) and diversity on the Board. After reaching its decision, the Nomination Committee nominates relevant Director candidates to the Board for approval and appointment. As said above, all Directors appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the first general meeting after his or her appointment and shall be eligible for re-election. The Board will make recommendation to shareholders in respect of the proposed re-election of Directors at general meeting.

The meeting of the Nomination Committee shall be held at least once a year and when necessary. During the financial year ended 31 December 2018, the Nomination Committee held two meetings to evaluate the structure, size and composition of the Board, to review the implementation of the Company's Board Diversity Policy, to assess the independence of the Independent Non-Executive Directors, to make recommendations to the Board on the re-election of Directors and to propose adoption of the Nomination Policy and revision to the terms of reference of the Nomination Committee in light of the amendment to the CG Code.

The attendance of each member of the Nomination Committee is set out in the section headed "Board and Committees Meetings" of this report.

Board Committees (continued)

Audit Committee

The Audit Committee comprises all five Independent Non-Executive Directors, being Dr. Li Kwok Po, David, Dr. Chan Cho Chak, John, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. In March 2019, the Company received a letter from Dr. Li Kwok Po, David tendering his resignation as the Chairman of the Audit Committee with effect from 1 April 2019 in order to devote more time to his other duties and business commitments. Dr. Li will remain as a member of the committee. As recommended by the Audit Committee and approved by the Board on 29 March 2019, Mr. Wu Ting Yuk, Anthony will act as the Chairman of the Audit Committee with effect from 1 April 2019.

The meetings of the Audit Committee shall be held at least twice a year or as and when necessary. During the financial year ended 31 December 2018, the Audit Committee had held four meetings to review, among other matters, the 2017 annual results, the 2018 quarterly and interim results of the Group before their submission to the Board as well as to monitor the integrity of such financial statements/financial information. The Audit Committee oversees matters concerning the external auditor including making recommendations to the Board regarding the appointment of the external auditor, reviewing the nature and scope of their audit work and approving their fees. In addition to the four meetings as aforesaid, the Audit Committee also had a private meeting with the external auditor to discuss any area of concern. The Audit Committee further ensures that the management has put in place effective risk management and internal control systems and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and their training programmes and budget. In addition, it reviews the Group's internal audit reports and monitors the effectiveness of the internal audit function.

The attendance of each member of the Audit Committee is set out in the section headed "Board and Committees Meetings" of this report.

Board and Committees Meetings

The individual attendance records of each Director at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings during the year ended 31 December 2018 are set out below:

Name of Director	Board	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting
Executive Directors					
Huang Xiaofeng	4/5	–	2/2	–	1/1
Wen Yinheng	5/5	–	–	–	1/1
Ho Lam Lai Ping, Theresa	5/5	–	–	–	1/1
Tsang Hon Nam	5/5	–	–	–	1/1
Non-Executive Directors					
Cai Yong	4/5	–	–	–	1/1
Zhang Hui	4/5	–	–	–	1/1
Zhao Chunxiao	4/5	–	–	–	1/1
Lan Runing	4/5	–	–	–	1/1
Li Wai Keung	5/5	–	–	–	1/1
Independent Non-Executive Directors					
Chan Cho Chak, John	5/5	5/5	2/2	4/4	1/1
Li Kwok Po, David	4/5	4/5	2/2	3/4	1/1
Fung Daniel Richard	5/5	5/5	2/2	4/4	0/1
Cheng Mo Chi, Moses	5/5	5/5	2/2	4/4	0/1
Wu Ting Yuk, Anthony	5/5	5/5	2/2	4/4	1/1

Accountability and Audit

Financial Reporting

The Board receives monthly management updates on the Group's performance and financial position and is responsible for overseeing the preparation of financial statements for each financial year.

The Directors have acknowledged their responsibility in the preparation of all information and representations contained in the financial statements of the Company for the year ended 31 December 2018, which give a true and fair view of the financial position of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2018, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on a going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual, interim and quarterly results of the Company are announced in a timely manner within the limit of three months, two months and 45 days respectively after the end of the relevant periods in accordance with the Listing Rules.

Auditor's Remuneration

During the year under review, the remuneration paid/payable to the Company's auditor, Ernst & Young, is set out as follows:

Services rendered	**Fee paid/payable** HK$'000
Audit of financial statements *(Note 1)*	8,484
Review of interim results	1,875
Agreed-upon procedures on quarterly results	1,300
Environmental, social and governance reporting consultancy services	728
Enterprise risk assessment and business process review services	94
Total *(Note 2)*	12,481

Notes:

1. *Another member firm of the Ernst & Young global network was engaged to conduct audit on the financial statements of certain subsidiaries of the Company. The relevant remuneration (not included in the amount shown above) was HK$3,707,000.*

2. *The above analysis does not include the services engaged by Guangdong Land Holdings Limited ("GD Land"). Please refer to the 2018 annual report of GD Land for the relevant details.*

Risk Management and Internal Control

The Board is responsible for and is highly concerned with the Group's risk management and internal control systems and reviews their effectiveness annually. In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including parameters of authority delegation. Such systems are designed to prudently manage the Group's risks within an acceptable risk profile and provide reasonable assurance against material misstatement or loss. The Board has delegated to management the implementation of the risk management and internal control systems as well as the review of the relevant financial, operational, compliance, risk management and internal control procedures.

The management under the supervision of the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the risk management and internal control framework when there are changes in business, external environment or regulatory guidelines.

The management assists the Board with the implementation of all relevant policies and procedures on risk and control by identifying and assessing the risks faced by the Group and designing, operating and monitoring suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the risk management and internal control systems include the following: a defined management structure is maintained with specified limits of authority and control responsibilities, which is designed to (a) safeguard assets from inappropriate use; (b) maintain proper accounts; (c) ensure compliance with laws and regulations; and (d) identify, manage and mitigate key risks to the Group.

Accountability and Audit (continued)

Risk Management and Internal Control (continued)

The Audit Committee reviews, among others, the financial controls, risk management and internal control systems of the Group and any significant internal control issues identified by the internal audit department, external auditor and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of management's on-going monitoring of risks and of the internal control systems and the work of the internal audit functions and independence of the internal audit department. The internal audit function, which is independent of the Group's management team, assesses and monitors the effectiveness of the Group's risk management and internal control systems and reports to the Audit Committee on a half-yearly basis. The function has unrestricted access to the company records that allows it to review all aspects of the Group's control and governance process. The scope of work includes financial and operational review, recurring and unscheduled audit, fraud investigation and compliance review. The opinion, as formulated by the function on the effectiveness of the risk management and internal control systems, together with the findings and implementation progress of the audit recommendations, would be reported to the Audit Committee. During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budgets.

Review of Risk Management and Internal Control Systems

The risk management and internal control framework is under constant review and is updated in response to changes in business, external environment or legal and regulatory requirements.

The Board has conducted a review of the effectiveness of the risk management and internal control system and is satisfied that the risk management and internal control systems in place covering all material controls including financial, operational and compliance controls and risk management functions for the year under review and up to the date of issuance of this Annual Report and accounts are reasonably effective and adequate.

Policy on Inside Information

The Company has adopted policies on monitoring, reporting and disclosure of inside information (as defined in the Listing Rules). This ensures timely reporting and disclosure as well as fulfilment of the Group's continuous disclosure obligations.

Company Secretary

The Company Secretary reports to the Chairman and the Managing Director and all members of the Board have access to the advice and service of the Company Secretary.

Mrs. Ho Lam Lai Ping, Theresa has been the Company Secretary of the Company since December 1992. She is a full time employee with day-to-day knowledge of the Company's affairs and is supporting the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination of comprehensive Board meeting agendas and papers to Directors. She advises the Board on corporate governance matters, arranges induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed Directors.

For the year under review, Mrs. Ho has confirmed that she has taken over 15 hours of relevant professional training.

Shareholders' Rights

Shareholders convening an extraordinary general meeting

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to the Hong Kong Companies Ordinance, shareholders of the Company holding not less than 5% of the total voting rights of all the members having a right to vote at general meeting may request the Directors to call a general meeting of the Company. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the person or persons making it. Directors of the Company must call a meeting within 21 days after the date on which they become subject to the requirement. The meeting being called must 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, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. 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.

Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website.

Shareholders' Rights (continued)

Shareholders' Enquiries and Proposals

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders' enquiries and proposals can be made by mail, email or by phone. The contact details of the Company are set out in the subsection headed "IR Contact" under the "Investor Relations" section of the Company's website. In addition, the Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and to strengthen communications with both the public and the shareholders. The Company has formulated the "Shareholders Communication Policy" which enables shareholders to exercise their rights in an informed manner.

Investor Relations

Communication with Shareholders

The Company actively promotes investor relations and communication with the investment community throughout the year under review. The Company responds to requests for information and queries from the investment community including shareholders, analysts and the media through regular briefing meetings, announcements, conference calls and presentations.

The Board is committed to providing clear and full information on the Company to shareholders through the publication of notices, announcements, circulars, interim and annual reports. Moreover, additional information on the Company is also available to shareholders and stakeholders through the "Investor Relations" page on the Company's website.

Constitutional Documents

During the year under review, no changes have been made to the constitutional documents of the Company. An up-to-date consolidated version of the Company's articles of association is available on the Company's website.

Dividend Policy

The Company considers stable and sustainable returns to shareholders to be our goal and endeavours to maintain a progressive dividend policy. In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account the Group's earnings performance, financial position, investment requirements and future prospects.

There can be no assurance that a dividend will be proposed or declared in any given year. If a dividend is proposed or declared, there can be no assurance that the dividend amount will be contemplated as above.

Environmental Policies and Performance

Environmental protection is one of the Group's key focuses in fulfilling its corporate social responsibilities. The Government of the People's Republic of China requires that all applicable businesses comply with relevant environmental laws and regulations. As the majority of its operations are in Mainland China, the Group strictly complies with the applicable laws and regulations. The Group has relevant environmental policies in place for each business segment. The Group also cooperates with its partners, including but not limited to tenants, customers and suppliers, to support environmental protection. The Group requires its suppliers to operate in strict compliance with all relevant environmental regulations and rules. Moreover, the suppliers' environmental performance is evaluated on a regular basis.

To the extent necessary for an understanding of the development, performance or position of the Group's business, management is not aware of any non-compliance with relevant laws and regulations that may have a significant impact on the Company during the year ended 31 December 2018 and up to the date of this report.

For more detailed information about the Company's environmental policies and performance for this financial year, please refer to the Company's 2018 environmental, social and governance report to be issued separately.

Environmental, Social and Governance Committee

An Environmental, Social and Governance Committee ("ESG Committee") has been formed pursuant to the resolutions passed by the Board in October 2018. The ESG committee is chaired by the Managing Director and it comprises the Company Secretary, the Chief Financial Officer and senior members from various business and functional units. The ESG committee will monitor and report to the Board on the implementation and effectiveness of the ESG policies and practices as adopted by the Company, and consider the impact of the Company's ESG policies and practices on its stakeholders, including employees, shareholders, customers, suppliers, business associates and local communities. The ESG committee will consider key trends in laws, regulations and public debates about ESG matters, and keep track of the best ESG practices of the Company's peers and business partners. Moreover, the ESG committee will meet at least once a year to review and evaluate the Company's ESG policy and performance.

Key Relationships with Stakeholders

The Group recognises that employees, customers, business associates and the local community are key stakeholders of the Group's success. The Group strives to achieve corporate sustainability through engaging employees, providing quality services to customers and collaborating with business associates (including suppliers and contractors) to deliver sustainable products and services and support the local community.

The paragraphs below only describe the Group's key relationships with stakeholders to the extent necessary for an understanding of the development, performance and position of the Group's business. For more detailed information, please refer to the Company's 2018 environmental, social and governance report to be issued separately.

Employees

Employees are one of the Group's most important assets. The Group ensures that its recruitment policies are in compliance with the rules and regulations on equal opportunity and anti-discrimination. The Group also provides training and career development opportunities to attract and retain talents, who are pivotal to business development. A safe and healthy work environment is also maintained for employees. The Group has dedicated safety management committees on its operation that oversee health and safety matters.

Customers

Customer satisfaction with the Group's products and services is key to its business success. The Group has dedicated customer service teams to reach out to and receive feedback from customers. The hotel business segment, for example, conducts continuous customer feedback and complaint management and formulates next steps to improve and ensure that the best services are provided to customers.

Suppliers

All of the Group's procurement processes are subject to open, fair and impartial bidding to select suitable suppliers. In addition, significant emphasis has been put on industrial safety and anti-corruption policies to ensure that suppliers comply with all relevant local laws and regulations. The Group has also incorporated green procurement policies into the hotel business segment, created a list of qualified suppliers and prioritised suppliers that provide environmentally friendly products.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

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To the members of Guangdong Investment Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Guangdong Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 182, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties at fair values	
As at 31 December 2018, the aggregate carrying amounts of completed investment properties and investment properties under development of the Group measured at fair values amounted to approximately HK$11,355 million and approximately HK$1,478 million, respectively, with a fair value gain of approximately HK$230 million recognised in the consolidated statement of profit or loss for the year ended 31 December 2018. The Group engaged an independent external valuer to perform valuations of completed investment properties and investment properties under development of the Group to support management's determination of the fair values. Significant management estimations are involved to determine the fair values. Relevant disclosures are included in notes 3 and 14 to the consolidated financial statements.	Our audit procedures included, among others, evaluating the independent external valuer's competence, capabilities and objectivity. We also involved our internal valuation specialists to assist us to evaluate the valuation methodologies, key assumptions and parameters applied in the valuations by benchmarking market comparables and normal market practice.
Impairment assessment of goodwill	
As at 31 December 2018, the carrying amount of the Group's goodwill amounted to approximately HK$302 million. Goodwill arising through business combinations was allocated to the relevant cash-generating units ("CGUs") of the Group's water distribution operations and sewage treatment operations. The Group performs an impairment test of goodwill on an annual basis. This requires an estimation of the recoverable amount which has been determined based on a value in use approach using discounted cash flow method, with reference to the cash flow forecasts of the respective cash-generating unit to which the goodwill is allocated. The assessment involved the use of significant management estimations and assumptions to identify the CGUs and to determine key assumptions, including forecasted revenue growth rates, forecasted operating expenses and discount rates, applied in the discounted cash flow calculations. Relevant disclosures are included in notes 3 and 16 to the consolidated financial statements.	Our audit procedures included, amongst others, understanding and evaluating the Group's basis of allocation of goodwill to relevant CGUs; evaluating the key assumptions and parameters including forecasted revenue growth rates and forecasted operating expenses used in the discounted cash flow forecasts with reference to the historical operating data of the relevant CGUs, and comparing current performance to previous forecasts; and performing sensitivity analyses on the forecasts. Further, we involved our internal valuation specialists to assess the valuation methodologies and the discount rates used by benchmarking comparable companies in similar industries and normal market practice.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value of completed properties held for sale and properties held for sale under development	
As at 31 December 2018, the carrying amounts of completed properties held for sale and properties held for sale under development amounted to HK$10,885 million in aggregate. These properties are stated at the lower of the cost and net realisable value. Significant management estimations are involved in determining the net realisable values of properties including estimating expected selling prices and construction costs to completion. Relevant disclosures are included in notes 3 and 20 to the financial statements.	Our audit procedures included, amongst others, evaluating the basis of net realisable value estimated by management (i) by comparing the expected selling prices to contracted selling prices or current market transaction prices of properties in comparable locations and conditions, where applicable; and (ii) benchmarking estimated costs to completion, on a sample basis, to committed contracts amount and the existing development status of the properties.

Other information included in the annual report

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

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

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

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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.

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

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

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

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

- 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.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
REVENUE	*5*	**13,363,600**	12,168,839
Cost of sales		**(5,696,300)**	(4,984,830)
Gross profit		**7,667,300**	7,184,009
Other income and gains	*5*	**691,738**	665,985
Gain on bargain purchase	*5*	**296,737**	1,212,514
Changes in fair value of investment properties		**230,102**	431,752
Selling and distribution expenses		**(348,696)**	(280,826)
Administrative expenses		**(1,734,204)**	(1,584,301)
Exchange differences, net		**120,070**	(57,489)
Other operating income/(expenses), net		**(15,034)**	58,161
Finance costs	*7*	**(149,964)**	(110,593)
Share of profits less losses of associates		**136,597**	101,553
PROFIT BEFORE TAX	*6*	**6,894,646**	7,620,765
Income tax expense	*10*	**(1,393,558)**	(1,617,111)
PROFIT FOR THE YEAR		**5,501,088**	6,003,654
Attributable to:			
Owners of the Company		**5,015,119**	5,685,371
Non-controlling interests		**485,969**	318,283
		5,501,088	6,003,654
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*		
Basic		**HK76.71 cents**	HK88.04 cents
Diluted		**HK76.68 cents**	HK87.96 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**5,501,088**	6,003,654
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations		
– Subsidiaries	**(1,946,346)**	2,540,209
– Associates	**(124,171)**	91,906
	(2,070,517)	2,632,115
Net loss on available-for-sale financial assets, net of tax	**–**	(7,265)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**(2,070,517)**	2,624,850
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investment designated at fair value through other comprehensive income, net of tax	**3,807**	–
Fair value gains on property, plant and equipment, net of tax	**59,047**	9,962
Share of an associate's remeasurement loss on defined benefit plan, net of tax	**(10,446)**	–
	52,408	9,962
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(2,018,109)**	2,634,812
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,482,979**	8,638,466
Attributable to:		
Owners of the Company	**3,393,731**	7,722,660
Non-controlling interests	**89,248**	915,806
	3,482,979	8,638,466

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	7,017,886	7,484,561
Investment properties	14	16,949,174	16,037,772
Prepaid land lease payments	15	306,824	275,582
Goodwill	16	301,883	303,605
Investments in associates	17	3,676,701	3,679,684
Operating concession rights	18(a)	13,047,462	14,113,313
Receivables under service concession arrangements	18(b)	1,451,496	922,320
Receivables under a cooperative arrangement	19	414,701	–
Available-for-sale financial assets	21	–	5,555
Equity investment designated at fair value through other comprehensive income	21	10,191	–
Prepayments and other receivables	23	137,905	175,291
Deferred tax assets	29	252,019	158,733
Total non-current assets		43,566,242	43,156,416
CURRENT ASSETS			
Properties held for sale under development	20	5,831,502	5,748,595
Completed properties held for sale	20	5,053,081	417,595
Available-for-sale financial assets	21	–	8,093,040
Financial assets at fair value through profit or loss	21	7,399,210	–
Other financial assets at amortised cost	21	1,597,820	–
Tax recoverable		26,053	1,852
Inventories	22	180,939	172,741
Receivables under service concession arrangements	18(b)	13,223	12,445
Receivables, prepayments and other receivables	23	1,118,991	1,099,700
Due from non-controlling equity holders of subsidiaries	26	66,670	66,113
Pledged bank deposits	24	42,278	68,242
Restricted bank balances	24	641,314	136,989
Cash and cash equivalents	24	7,645,121	7,565,286
Total current assets		29,616,202	23,382,598
CURRENT LIABILITIES			
Payables, accruals and other liabilities	25(a)	(5,055,827)	(4,666,903)
Contract liabilities	25(b)	(1,637,277)	–
Tax payables		(803,482)	(970,074)
Due to non-controlling equity holders of subsidiaries	26	(159,000)	(174,886)
Bank and other borrowings	27	(1,567,092)	(5,176,434)
Total current liabilities		(9,222,678)	(10,988,297)
NET CURRENT ASSETS		20,393,524	12,394,301
TOTAL ASSETS LESS CURRENT LIABILITIES – page 64		63,959,766	55,550,717

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES – page 63		**63,959,766**	55,550,717
NON-CURRENT LIABILITIES			
Bank and other borrowings	*27*	**(7,289,915)**	(152,686)
Other liabilities	*28*	**(937,138)**	(1,385,917)
Deferred tax liabilities	*29*	**(6,272,264)**	(4,848,546)
Total non-current liabilities		**(14,499,317)**	(6,387,149)
Net assets		**49,460,449**	49,163,568
EQUITY			
Equity attributable to owners of the Company			
Share capital	*30*	**8,966,177**	8,966,177
Reserves	*32*	**31,406,078**	31,248,282
		40,372,255	40,214,459
Non-controlling interests		**9,088,194**	8,949,109
Total equity		**49,460,449**	49,163,568

Huang Xiaofeng
Director

Tsang Hon Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the Company												
	Notes	Share capital HK$'000	Share option reserve HK$'000 *(note 32(ii))*	Asset revaluation reserve HK$'000	Capital reserve HK$'000 *(note 32(iv))*	Available-for-sale financial assets revaluation reserve HK$'000	Expansion fund reserve HK$'000 *(note 32(iii))*	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Special reserve HK$'000 *(note 32(i))*	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		5,789,737	15,318	44,958	1,729,874	13,818	2,305,342	(836,567)	(8,085)	80,852	23,086,721	32,221,968	6,016,718	38,238,686
Profit for the year		–	–	–	–	–	–	–	–	–	5,685,371	5,685,371	318,283	6,003,654
Other comprehensive income/(loss) for the year:														
Exchange differences related to foreign operations														
– Subsidiaries		–	–	–	–	–	–	1,945,075	–	–	–	1,945,075	595,134	2,540,209
– Associates		–	–	–	–	–	–	91,906	–	–	–	91,906	–	91,906
Net loss on available-for-sale financial assets, net of tax		–	–	–	–	(7,265)	–	–	–	–	–	(7,265)	–	(7,265)
Fair value gains on property, plant and equipment, net of tax		–	–	7,573	–	–	–	–	–	–	–	7,573	2,389	9,962
Total comprehensive income/(loss) for the year		–	–	7,573	–	(7,265)	–	2,036,981	–	–	5,685,371	7,722,660	915,806	8,638,466
Issue of shares	*30*	3,176,440	–	–	–	–	–	–	–	–	–	3,176,440	–	3,176,440
Change in ownership interests in a subsidiary		–	–	–	–	–	–	–	842	–	–	842	3,161	4,003
Acquisition of subsidiaries	*34*	–	–	–	–	–	–	–	–	–	–	–	2,159,978	2,159,978
Acquisition of non-controlling interest in a subsidiary		–	–	–	–	–	–	–	1,186	–	–	1,186	(4,304)	(3,118)
Capital injection of subsidiaries by non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	80,605	80,605
Equity-settled share option arrangements	*31*	–	693	–	–	–	–	–	–	–	–	693	–	693
Share options lapsed	*31*	–	(877)	–	–	–	–	–	–	–	877	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(222,855)	(222,855)
Transfer from retained profits		–	–	–	–	–	349,638	–	–	–	(349,638)	–	–	–
Final 2016 dividend paid		–	–	–	–	–	–	–	–	–	(1,961,346)	(1,961,346)	–	(1,961,346)
Interim 2017 dividend paid	*11*	–	–	–	–	–	–	–	–	–	(947,984)	(947,984)	–	(947,984)
Transfer from retained profits in accordance with the Undertaking	*32(i)*	–	–	–	–	–	–	–	–	25,934	(25,934)	–	–	–
Transfer to retained profits upon issue of new ordinary shares	*32(i)*	–	–	–	–	–	–	–	–	(106,786)	106,786	–	–	–
At 31 December 2017		8,966,177	15,134	52,531	1,729,874	6,553	2,654,980	1,200,414	(6,057)	–	25,594,853	40,214,459	8,949,109	49,163,568

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2018

		Attributable to owners of the Company													
	Notes	Share capital HK$'000	Share option reserve HK$'000 (note 32(ii))	Asset revaluation reserve HK$'000	Capital reserve HK$'000 (note 32(iv))	Available-for-sale financial assets revaluation reserve HK$'000	Expansion fund reserve HK$'000 (note 32(iii))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Fair value reserve HK$'000	Defined benefit plan reserve HK$'000 (note 32(v))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017		8,966,177	15,134*	52,531*	1,729,874*	6,553*	2,654,980*	1,200,414*	(6,057)*	–*	–*	25,594,853*	40,214,459	8,949,109	49,163,568
Effect of adoption of HKFRS 9	2.2	–	–	–	–	(6,553)	–	–	–	–	–	6,553	–	–	–
At 1 January 2018 (restated)		8,966,177	15,134	52,531	1,729,874	–	2,654,980	1,200,414	(6,057)	–	–	25,601,406	40,214,459	8,949,109	49,163,568
Profit for the year		–	–	–	–	–	–	–	–	–	–	5,015,119	5,015,119	485,969	5,501,088
Other comprehensive income/(loss) for the year:															
Exchange differences related to foreign operations															
– Subsidiaries		–	–	–	–	–	–	(1,535,467)	–	–	–	–	(1,535,467)	(410,879)	(1,946,346)
– Associates		–	–	–	–	–	–	(124,171)	–	–	–	–	(124,171)	–	(124,171)
Changes in fair value of equity investment designated at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	–	3,807	–	–	3,807	–	3,807
Fair value gains on property, plant and equipment, net of tax		–	–	44,889	–	–	–	–	–	–	–	–	44,889	14,158	59,047
Share of an associate's remeasurement loss on defined benefit plan, net of tax		–	–	–	–	–	–	–	–	–	(10,446)	–	(10,446)	–	(10,446)
Total comprehensive income/(loss) for the year		–	–	44,889	–	–	–	(1,659,638)	–	3,807	(10,446)	5,015,119	3,393,731	89,248	3,482,979
Acquisition of non-controlling interest in a subsidiary		–	–	–	–	–	–	–	236	–	–	–	236	(891)	(655)
Capital injection of subsidiaries by non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	196,961	196,961
Equity-settled share option arrangements	31	–	109	–	–	–	–	–	–	–	–	–	109	–	109
Share options lapsed	31	–	(15,243)	–	–	–	–	–	–	–	–	15,243	–	–	–
Dividends and distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(161,097)	(161,097)
Transfer from retained profits		–	–	–	–	–	307,630	–	–	–	–	(307,630)	–	–	–
Final 2017 dividend paid		–	–	–	–	–	–	–	–	–	–	(2,222,859)	(2,222,859)	–	(2,222,859)
Interim 2018 dividend paid	11	–	–	–	–	–	–	–	–	–	–	(1,046,051)	(1,046,051)	–	(1,046,051)
Contribution from non-controlling equity holders		–	–	–	32,630	–	–	–	–	–	–	–	32,630	14,864	47,494
At 31 December 2018		8,966,177	–*	97,420*	1,762,504*	–*	2,962,610*	(459,224)*	(5,821)*	3,807*	(10,446)*	27,055,228*	40,372,255	9,088,194	49,460,449

* *These reserve accounts comprise the consolidated reserves of HK$31,406,078,000 (2017: HK$31,248,282,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,894,646**	7,620,765
Adjustments for:			
Finance costs	7	**149,964**	110,593
Share of profits less losses of associates		**(136,597)**	(101,553)
Bank interest income	5	**(165,232)**	(288,174)
Interest income from financial assets at fair value through profit or loss/other financial assets at amortised cost/available-for-sale financial assets	5	**(337,612)**	(153,317)
Interest income from receivables under a cooperative arrangement	5	**(12,731)**	–
Investment income from available-for-sale financial assets	5	**–**	(60,749)
Fair value gain on financial assets at fair value through profit or loss	5	**(39,250)**	–
Depreciation	6	**504,463**	483,909
Recognition of prepaid land lease payments	6	**12,227**	13,844
Amortisation of operating concession rights	6	**1,012,177**	988,387
Changes in fair value of investment properties		**(230,102)**	(431,752)
Equity-settled share option benefits	6	**109**	693
Loss on disposal of items of property, plant and equipment, net	6	**8,414**	3,101
Gain on disposal of a subsidiary	5	**–**	(2,968)
Gain on bargain purchase	5	**(296,737)**	(1,212,514)
Exchange losses/(gains), net		**(101,758)**	34,273
Impairment losses recognised/(reversed) for trade receivables, net	6	**(345)**	1,840
Operating profit before working capital changes		**7,261,636**	7,006,378
Increase in inventories		**(16,748)**	(36,359)
Increase in receivables, prepayments, other receivables and assets		**(155,670)**	(428,852)
Increase in receivables under service concession arrangements		**(482,378)**	(464,546)
Decrease in completed properties held for sale		**205,587**	117,238
Increase in properties held for sale under development		**(352,203)**	(256,307)
Decrease in payables, accruals and other liabilities		**(120,192)**	(68,715)
Increase in contract liabilities		**1,673,436**	–
Movement in balances with non-controlling equity holders of subsidiaries, net		**(19,566)**	(7,440)
Decrease/(increase) in restricted bank balances		**(514,916)**	213,995
Cash generated from operations – page 68		**7,478,986**	6,075,392

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash generated from operations – page 67		**7,478,986**	6,075,392
Interest received		**502,844**	441,491
Dividends from associates		**87,473**	123,382
Hong Kong profits tax paid		**(17,781)**	(13,961)
Mainland China tax paid		**(1,724,176)**	(1,554,482)
Net cash flows from operating activities		**6,327,346**	5,071,822
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in available-for-sale financial assets		**–**	1,370,498
Net movement in financial assets at fair value through profit or loss		**(1,021,050)**	–
Net movement in other financial assets at amortised cost		**(263,846)**	–
Net movement in receivables under a cooperative agreement		**(417,594)**	–
Purchases of items of property, plant and equipment		**(577,864)**	(360,925)
Additions to operating concession rights		**(126,795)**	(225,971)
Additions to prepaid land lease payments		**–**	(6,994)
Additions to investment properties		**(766,721)**	(681,634)
Acquisition of subsidiaries	*34*	**(2,360,455)**	8,910
Acquisitions of non-controlling interests		**–**	(3,118)
Proceeds from disposal of a subsidiary	*41*	**–**	2,068
Proceeds from disposal of partial interests in a subsidiary		**–**	4,003
Increase in investments in associates		**(70,725)**	(1,893,445)
Proceeds from disposal of items of property, plant and equipment		**7,894**	3,560
Decrease/(increase) in pledged bank deposits		**23,687**	(13,894)
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**261,607**	(214,069)
Settlement of consideration payable for acquisition of subsidiaries in the prior years		**(36,847)**	(51,227)
Net cash flows used in investing activities		**(5,348,709)**	(2,062,238)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**9,311,881**	1,150,709
Repayments of bank and other borrowings		**(6,134,190)**	(1,307,750)
Interest paid		**(157,545)**	(110,593)
Decrease in loans from a fellow subsidiary		**(7,343)**	(7,152)
Decrease in amounts due to the ultimate holding company and fellow subsidiaries		**(22,357)**	–
Payment for acquisition of non-controlling interests		**(48,619)**	–
Capital contribution from non-controlling equity holders of subsidiaries		**129,668**	80,605
Dividends paid to non-controlling shareholders		**(191,679)**	(255,720)
Dividends paid to shareholders		**(3,268,910)**	(2,909,330)
Net cash flows used in financing activities		**(389,094)**	(3,359,231)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**589,543**	(349,647)
Cash and cash equivalents at beginning of year		**6,519,825**	6,411,042
Effect of foreign exchange rate changes, net		**(222,354)**	458,430
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,887,014**	6,519,825
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**3,845,440**	2,832,769
Non-pledged time deposits with original maturity of less than three months when acquired	*24*	**3,041,574**	3,687,056
Cash and cash equivalents as stated in the consolidated statement of cash flows		**6,887,014**	6,519,825

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. Corporate and Group Information

Guangdong Investment Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 28/F. and 29/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group was principally engaged in investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects, road and bridge operation.

GDH Limited is the immediate holding company of the Company. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings"), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

Information about subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
寶應粵海水務有限公司 (Baoying Yuehai Water Company Limited▲)(2)(4)	Mainland China	RMB106,950,000	–	70%	Water distribution operation
China City Water Supply Investment Holding Limited	Cayman Islands/ Hong Kong	US$10,000	–	100%	Investment holding
Cititrend Industrial Limited	Hong Kong	HK$2	–	100%	Investment holding
大埔粵海環保有限公司 (Dapu Guangdong Huanbao Co.,Ltd.▲)(1)(12)	Mainland China	RMB87,810,000	–	97%	Sewage treatment operation
東莞市常平金勝水務有限公司 (Dongguan Changping Jinsheng Water Co., Ltd.▲)(4)	Mainland China	RMB35,000,000	–	90.1%	Sewage treatment operation
東莞市道滘鴻發污水處理有限公司 (Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲)(3)(4)	Mainland China	RMB11,000,000	–	90.1%	Sewage treatment operation
東莞市清溪粵海水務有限公司 (Dongguan Qingxi Guangdong Water Co., Ltd.▲) ("Qingxi Water Co")(4)(8)	Mainland China	RMB180,000,000	–	43.86%	Water distribution operation
Dongguan Yuehai Yinping Development and Construction Limited ("Dongguan Yuehai Yinping")(3)(16)	Mainland China	RMB1,585,700,000	100%	–	Construction and management of road operation
恩施粵海正源水務有限公司 (Enshi Guangdong Zhengyuan Water Company Limited▲) ("Enshi Water Co")(4)(11)(17)*	Mainland China	RMB210,000,000	55%	–	Water distribution operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
豐順粵海水務有限公司 (Fengshun Guangdong Water Co., Ltd.▲) ("Fengshun Water Co")(1)(12)	Mainland China	RMB107,500,000	–	70%	Water distribution operation
Fill Success Investments Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	–	100%	Hotel ownership
高郵港郵供水有限公司 (Gaoyou Gangyou Water Supply Company Limited▲)(2)(4)	Mainland China	RMB91,400,000	–	60%	Water distribution operation
高州粵海水務有限公司 (Gaozhou Guangdong Water Company Limited▲) ("Gaozhou Water Co")(1)(15)	Mainland China	RMB196,078,400	51%	–	Water distribution operation
GH Water Supply (Holdings) Limited ("GH Water Holdings")(7)	Cayman Islands/ Hong Kong	HK$1,000,000 ordinary HK$100 Class A special shares	96.04%	–	Investment holding
Global Head Developments Limited ("Global Head")	British Virgin Islands/ Hong Kong	US$1	100%	–	Property investment
Guangdong Hotel Limited	Hong Kong	HK$2 ordinary HK$5,000,000 non-voting deferred	–	100%	Hotel ownership and operation
珠海粵海酒店 (Guangdong Hotel (Zhu Hai)▲)(3)*	Mainland China	US$10,000,000	–	100%	Hotel ownership and operation
Guangdong (International) Hotel Management Holdings Limited	Hong Kong	HK$10,000,000	100%	–	Hotel management
Guangdong Land Holdings Limited ("GD Land")(10)*	Bermuda	HK$171,153,685 (Authorised share capital: HK$500,000,000)	73.82%	–	Property development and investment
Guangdong Nan Fang (Holdings) Co. Ltd*	British Virgin Islands/ Mainland China	US$10,000	100%	–	Property investment
Guangdong Power (International) Limited ("GPIL")	British Virgin Islands/ Hong Kong	US$8,690,750	51%	–	Property investment

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Properties Holdings Limited	Hong Kong	HK$2	100%	–	Investment holding
廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited▲) ("GD Teem")(1)*	Mainland China	RMB840,000,000	11.51%	64.62%	Property investment and investment holding
廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲)(4)*	Mainland China	RMB50,000,000	–	85.20%	Department store operation
廣東天與地商業運營管理有限公司 (Guangdong Tiandi Commercial Operation Management Ltd.▲)(4)(11)(25)*	Mainland China	RMB50,000,000	–	64.71%	Property investment
Guangdong Water Group (H.K.) Limited	Hong Kong	HK$1,300,000,000	100%	–	Investment holding
廣東粵海水務投資有限公司 (Guangdong Yuehai Water Investment Company Limited▲)(4)(21)	Mainland China	RMB2,000,000,000	–	100%	Investment holding
Guangdong Yue Gang Water Supply Company Limited ("WaterCo")(2)(6)	Mainland China	HK$6,116,000,000	–	95.08%	Water distribution operation
廣東粵海房地產開發有限公司 (Guangdong Yuehai Property Development Co., Ltd.▲)(3)(9)(24)*	Mainland China	RMB308,000,000	–	73.82%	Property development and investment
廣西新長江高速公路有限責任公司 (Guangxi Xinchangjiang Gonglu Company Limited▲) ("Xinchangjiang")(4)	Mainland China	RMB518,000,000	–	100%	Toll road operation
廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited▲) ("Wanye")(4)(5)(8)*	Mainland China	RMB230,000,000	–	31.06%	Property development and investment
海南儋州粵海水務有限公司 (Hainan Danzhou Guangdong Water Company Limited▲) ("Danzhou Water Co")(1)(14)	Mainland China	RMB140,124,100	76.2%	–	Water distribution and sewage treatment operation
海南儋州自來水有限公司 (Hainan Danzhou Tap Water Company Limited▲)(3)	Mainland China	HK$30,000,000	–	70%	Water distribution operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
開平粵海水務有限公司 (Kaiping Guangdong Water Co., Ltd.▲)[4]	Mainland China	RMB17,500,000	–	54.29%	Sewage treatment operation
開平粵海污水處理有限公司 (Kaiping Yuehai Sewage Treatment Co., Ltd.▲)[4]	Mainland China	RMB18,500,000	–	54.29%	Sewage treatment operation
梅州粵海水務有限公司 (Meizhou Guangdong Water Co.,Ltd.▲)[2][22]	Mainland China	RMB326,667,000	–	70%	Water distribution and sewage treatment operation
Rosy Canton Holdings Limited ("Rosy Canton")	British Virgin Islands/ Hong Kong	US$1	100%	–	Investment holding
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK$2	–	100%	Hotel operation
汕尾粵海環保有限公司 (Shanwei Yuehai Huanbao Co., Ltd.▲)[4]	Mainland China	RMB75,000,000	–	80%	Sewage treatment operation
韶關粵海綠源環保有限公司 (Shaoguan Guangdong Luyuan Huanbao Co., Ltd.▲)[1][4][11][18]	Mainland China	RMB92,932,200	–	85.8%	Sewage treatment operation
深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.▲)[2]*	Mainland China	HK$40,000,000	99%	–	Hotel ownership and operation
深圳昇潤工程有限公司 (Shenzhen Shengrun Engineering Co., Ltd.▲)[4]	Mainland China	RMB4,650,000	–	100%	Water supply construction work operation
遂溪粵海水務有限公司 (Suixi Guangdong Water Company Limited▲) ("Suixi Water Co")[1][13]	Mainland China	RMB60,000,000	–	70%	Water distribution and sewage treatment operation
Tianjin Teem Shopping Center Co., Ltd.[3]*	Mainland China	RMB1,810,000,000	–	76.02%	Property investment and development
天津天河城百貨有限公司 (Tianjin Teemall Department Stores Ltd.▲)[4][11][26]*	Mainland China	RMB10,000,000	–	85.20%	Department store operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
吳川粵海環保有限公司 (WuChuan Guangdong Huanbao Co., Ltd.▲)(1)(4)(11)(19)	Mainland China	RMB178,891,800	–	98.8%	Sewage treatment operation
五華粵海環保有限公司 (Wuhua Yuehai Huanbao Co., Ltd.▲)(3)	Mainland China	RMB30,000,000	–	100%	Sewage treatment operation
五華粵海綠源環保有限公司 (Wuhua Yuehai Luyuan Huanbao Co., Ltd.▲)(3)(12)	Mainland China	RMB65,000,000	–	100%	Sewage treatment operation
五華粵海清源環保有限公司 (Wuhua Yuehai Qingyuan Huanbao Co., Ltd.▲)(4)	Mainland China	RMB10,000,000	–	100%	Sewage treatment operation
梧州粵海環保發展有限公司 (Wuzhou Yuehai Huanbao Fazhan Company Limited▲)(4)	Mainland China	RMB46,000,000	–	86.96%	Sewage treatment operation
梧州粵海江河水務有限公司 (Wuzhou Yuehai Jianghe Water Company Limited▲)(2)(4)	Mainland China	RMB110,000,000	–	51%	Water distribution operation
興寧粵海環保有限公司 (Xingning Yuehai Huanbao Co., Ltd.▲)(3)	Mainland China	RMB9,660,000	–	100%	Sewage treatment operation
盱眙粵海水務有限公司 (Xuyi Guangdong Water Company Limited▲) ("Xuyi Water Co")(1)(10)	Mainland China	RMB50,500,000	–	63.07%	Water distribution operation
陽江粵海環保有限公司 (Yangjiang Guangdong Huanbao Co., Ltd.▲)(1)(4)(11)(20)	Mainland China	RMB44,000,000	–	98.8%	Sewage treatment operation
陽山粵海環保有限公司 (Yangshan Guangdong Huanbao Co., Ltd.▲)(4)(11)*	Mainland China	RMB163,233,000	95%	–	Sewage treatment operation
儀征港儀供水有限公司 (Yizheng Gangyi Water Supply Company Limited▲)(2)(4)(23)	Mainland China	RMB141,400,000	–	60%	Water distribution operation
Yue Sheng Finance Limited	Hong Kong	HK$2	100%	–	Finance

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
雲浮粵海水務有限公司 (Yunfu Guangdong Water Company Limited▲)[(1)(12)]	Mainland China	RMB114,282,500	–	69.5%	Water distribution operation
Zhaoqing HZ GDH Water Co., Ltd.[(2)(4)]	Mainland China	RMB116,022,700	–	70%	Water distribution operation
中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.▲) ("ZS Thermal Power")[(2)]*	Mainland China	RMB1,114,688,900	–	71.25%	Power plant operation
珠海海潤水業有限公司 (Zhuhai Hairun Shuiye Company Limited▲)[(3)]	Mainland China	RMB300,000,000	–	100%	Investment holding
粵海科技(深圳)有限公司[(3)(10)]*	Mainland China	US$50,000,000	–	73.82%	Property investment
粵海置地(深圳)有限公司[(3)(10)]*	Mainland China	RMB4,000,000,000	–	73.82%	Property development and investment
廣州市天河城萬博百貨有限公司[(4)]*	Mainland China	RMB1,000,000	–	85.20%	Department store operation
廣州市番禺粵海房地產有限公司[(2)(10)]*	Mainland China	RMB187,300,000	–	59.06%	Property development
廣東粵海投資財務管理有限公司[(3)]*	Mainland China	RMB10,000,000	100%	–	Finance

Notes:

(1) *Sino-foreign equity joint venture.*

(2) *Sino-foreign co-operative joint venture.*

(3) *Wholly-foreign-owned enterprise.*

(4) *Limited company established in Mainland China.*

(5) *During the year ended 31 December 2018, the Group contributed nil (2017: RMB179,200,000) as capital reserve to Wanye.*

(6) *Pursuant to WaterCo's articles of association, Guangdong Holdings, which directly holds a 1% equity interest in WaterCo, is not entitled to receive any distributed profits of WaterCo for the first fifteen years of operation (the "Period"). 100% of the distributed profits of WaterCo for the Period shall be made to GH Water Holdings, its holding company holding a 99% equity interest. Starting from the sixteenth year of WaterCo's operation (from 18 August 2015 onwards), 1.01% of the distributed profits of WaterCo for the Period plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to Guangdong Holdings (collectively referred to as the "Deferred Dividend"). Once Guangdong Holdings has received the Deferred Dividend in full, all of WaterCo's distributable profits will be distributed to GH Water Holdings and Guangdong Holdings according to their respective equity interests in WaterCo for the remaining operating period.*

(7) *During the year ended 31 December 2018, the Group acquired additional interests in GH Water Holdings from the respective non-controlling equity holders.*

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows: (continued)

Notes: (continued)

(8) *Wanye and Qingxi Water Co are subsidiaries of non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.*

(9) *This subsidiary was acquired by the Group during the year ended 31 December 2018. Further details of which are set out in note 34 to these financial statements.*

(10) *These subsidiaries were acquired by the Group during the year ended 31 December 2017. Further details of which are set out in note 34 to these financial statements.*

(11) *These subsidiaries were established by the Group during the year ended 31 December 2018.*

(12) *These subsidiaries were established by the Group during the year ended 31 December 2017.*

(13) *During the year ended 31 December 2018, the Group contributed RMB12,600,000 (2017: RMB25,200,000) to Suixi Water Co as paid-up capital. RMB4,200,000 will be contributed to Suixi Water Co by 2019.*

(14) *During the year ended 31 December 2018, the Group contributed RMB16,775,000 (2017: RMB70,000,000) to Danzhou Water Co as paid-up capital.*

(15) *During the year ended 31 December 2018, the non-controlling equity holder contributed RMB96,078,400 (2017: nil) to Gaozhou Water Co as paid-up capital. The Group fully contributed its portion of paid-up capital in prior years.*

(16) *During the year ended 31 December 2018, the Group contributed RMB99,860,000 (2017: Nil) to Dongguan Yuehai Yinping as paid-up capital. RMB1,160,940,000 will be contributed by the Group by instalments.*

(17) *During the year ended 31 December 2018, the Group contributed RMB57,750,000 (2017: Nil) to Enshi Water Co as paid-up capital. RMB57,750,000 will be contributed by the Group by 2019.*

(18) *During the year ended 31 December 2018, the Group contributed RMB15,947,200 (2017:Nil) to Shaoguan Guangdong Luyuan Huanbao Company Limited as paid-up capital.*

(19) *During the year ended 31 December 2018, the Group contributed RMB40,000,000 (2017:Nil) to WuChuan Guangdong Huanbao Company Limited as paid-up capital.*

(20) *During the year ended 31 December 2018, the Group contributed RMB43,472,000 (2017:Nil) to Yangjiang Guangdong Huanbao Company Limited as paid-up capital.*

(21) *During the year ended 31 December 2018, the Group contributed RMB150,000,000 (2017:Nil) to Guangdong Water Investment Company Limited as paid-up capital.*

(22) *During the year ended 31 December 2018, the Group and the non-controlling equity holder contributed RMB88,666,700 (2017:Nil) and RMB38,000,000 (2017:Nil), respectively, to Meizhou Guangdong Water Co., Ltd. as paid-up capital.*

(23) *During the year ended 31 December 2018, the non-controlling equity holder contributed RMB10,000,000 (2017: Nil) to Yizheng Gangyi Water Supply Company Limited as paid-up capital. RMB25,000,000 will be contributed by the Group by 2019.*

(24) *100% equity interest in Guangdong Yuehai Property Development Co., Ltd. with an investment cost of HK$1,390,761,000 (2017: Nil) were pledged to secure a bank loan (note 27).*

(25) *During the year ended 31 December 2018, the Group and the non-controlling equity holder contributed RMB17,000,000 (2017:Nil) and RMB3,000,000 (2017:Nil), respectively, to Guangdong Tiandi Commercial Operation Management Ltd. as paid-up capital.*

(26) *During the year ended 31 December 2018, the Group contributed RMB10,000,000 (2017:Nil) to Tianjin Teemall Department Stores Ltd. as paid-up capital.*

* *Subsidiaries for which the statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

▲ *The English name of the entity marked with "▲" is a translation of its Chinese name, and is included herein and in other sections of this Annual Report for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for completed investment properties, certain investment properties under development, equity investment designated at fair value through other comprehensive income, financial assets at fair value through profit or loss and certain available-for-sale financial assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and HKFRS 1 Amendments, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 Changes in Accounting Policies and Disclosures (continued)

(b) (Continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Category	Amount HK$'000	Re-classification HK$'000	HKFRS 9 measurement Amount HK$'000	Category
Financial assets						
Available-for-sale financial assets		AFS[1]	8,098,595	(8,098,595)	–	N/A
Equity investment designated at fair value through other comprehensive income	(i)	N/A	–	5,555	5,555	FVOCI[2]
Financial assets at fair value through profit or loss	(ii)	FVPL[3]	–	6,684,739	6,684,739	FVPL[3]
Other financial assets at amortised cost	(iii)	N/A	–	1,408,301	1,408,301	AC[4]
Financial assets included in receivables under service concession arrangements	(iv)	L&R[5]	934,765	(401,838)	532,927	AC[4]
Trade receivables		L&R[5]	596,435	–	596,435	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R[5]	332,011	–	332,011	AC[4]
Due from associates		L&R[5]	12,559	–	12,559	AC[4]
Due from non-controlling equity holders of subsidiaries		L&R[5]	66,113	–	66,113	AC[4]
Pledged bank deposits		L&R[5]	68,242	–	68,242	AC[4]
Restricted bank balances		L&R[5]	136,989	–	136,989	AC[4]
Cash and cash equivalents		L&R[5]	7,565,286	–	7,565,286	AC[4]
Total			17,810,995	(401,838)	17,409,157	
Financial liabilities						
Trade payables		AC[4]	729,197	–	729,197	AC[4]
Financial liabilities included in payables, accruals and other liabilities		AC[4]	3,483,971	–	3,483,971	AC[4]
Bank and other borrowings		AC[4]	5,329,120	–	5,329,120	AC[4]
Due to non-controlling equity holders of subsidiaries		AC[4]	174,886	–	174,886	AC[4]
Total			9,717,174	–	9,717,174	

1 *AFS: Available-for-sale financial assets*
2 *FVOCI: Financial assets at fair value through other comprehensive income*
3 *FVPL: Financial assets at fair value through profit or loss*
4 *AC: Financial assets or financial liabilities at amortised cost*
5 *L&R: Loans and receivables*

Notes:

(i) *The Group has elected the option to irrevocably designate its previous available-for-sale equity investment as equity investment at fair value through other comprehensive income.*

(ii) *The Group has classified its unlisted investments previously classified as available-for-sale financial assets as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.*

(iii) *The Group has classified its unlisted investments previously classified as available-for-sale financial assets as other financial assets at amortised cost as these non-equity investments are managed within a business model to collect contractual cash flow and pass the contractual cash flow characteristics test in HKFRS 9.*

(iv) *The Group has classified part of the receivables under service concession arrangements to contract assets as the balances related to service concession projects under construction.*

2.2 Changes in Accounting Policies and Disclosures (continued)

(b) (Continued)

Impairment

The adoption of the expected credit loss requirements of HKFRS 9 does not have a material impact on the financial position and/or financial performance of the Group as at 1 January 2018.

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Available-for-sale financial assets revaluation reserve HK$'000	Retained profits HK$'000
Reserves under HKFRS 9 (available-for-sale financial assets revaluation reserve under HKAS 39)		
Balance as at 31 December 2017 under HKAS 39	6,553	25,594,853
Reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss	(6,553)	6,553
Balance as at 1 January 2018 under HKFRS 9	–	25,601,406

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The adoption of HKFRS 15 does not have a significant impact on timing and measurement of the Group's revenue recognition as at 1 January 2018. The key impact of HKFRS 15 is as follows:

Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. 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.

2.2 Changes in Accounting Policies and Disclosures (continued)

(c) (Continued)

Presentation of contract assets and liabilities (continued)

(i) Loyalty points programme

Before the adoption of HKFRS 15, the loyalty points programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty points programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. Under HKFRS 15, the loyalty points gives rise to a separate performance obligation because they provide a material right to the customer and a portion of the transaction price should be allocated to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty points programme has no material change compared to the amount under previous accounting policy. In prior years, the Group recognised the deferred revenue related to this loyalty points programme as deferred revenue included in payables, accruals and other liabilities. Under HKFRS 15, the amount is classified as contract liabilities.

Upon adoption of HKFRS 15, the Group reclassified HK$18,735,000 from payables, accruals and other liabilities to contract liabilities as at 1 January 2018 in relation to this loyalty points programme.

As at 31 December 2018, under HKFRS 15, HK$16,129,000 was reclassified from payables, accruals and other liabilities to contract liabilities in relation to this loyalty points programme.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as payables, accruals and other liabilities. Under HKFRS 15, the amount is classified as contract liabilities.

Upon adoption of HKFRS 15, the Group reclassified HK$530,664,000 from payables, accruals and other liabilities to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance for the provision of water distribution, sewage treatment and construction services, property management service and the sale of properties, goods and electricity.

As at 31 December 2018, under HKFRS 15, HK$1,621,148,000 was reclassified from payables, accruals and other liabilities to contract liabilities in relation to the consideration received from customers in advance for the provision of water distribution, sewage treatment and construction services, property management service, and the sale of properties, goods and electricity.

(iii) Upon adoption of HKFRS 15, the consideration of service concession arrangements which are classified as contract assets during the construction, are presented as operating concession rights with an amount of HK$221,609,000 and receivables under the service concession arrangements with an amount of HK$401,838,000, as at 1 January 2018, respectively.

As at 31 December 2018, contract assets which are presented as operating concession rights and receivables under service concession arrangements amounted to HK$40,651,000 and HK$700,719,000, respectively.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pay advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies 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 of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred revenue) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.2 Changes in Accounting Policies and Disclosures (continued)

(f) Amendments to HKAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit and loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. The amendments did not have any impact on the Group's financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

As disclosed in note 37(b) to the financial statements, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$356,728,000 as at 31 December 2018. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as right-of-use assets and lease liabilities. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group is in the process of performing a more detailed analysis to determine the amount of right of use assets and lease liabilities to be recognised arising from operating lease commitments upon the adoption of HKFRS 16, after taking account into the exemptions mentioned above, the exception of short-term and low value leases, and the effects of discounting.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 Summary of Significant Accounting Policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. The non-controlling interests in the acquiree that are 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 components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other terms is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its completed investment properties, certain investment properties under development, equity investment designated at fair value through other comprehensive income, financial assets at fair value through profit or loss and certain available-for-sale financial assets at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties stated at fair value, inventories, contract assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less cost of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) (continued)

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either 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 the key management personnel of the entity (or of a parent of the entity); and

(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 parent of the Group.

Properties held for sale under development

Properties held for sale under development are investments in land and buildings on which construction work and development have not been completed, and are stated at the lower of cost and net realisable value. Borrowing costs incurred during the construction period and up to the date of completion of construction are capitalised as development costs. Net realisable value represents the estimated selling price less estimated costs of completion and estimated selling expenses. On completion, the properties are reclassified to completed properties held for sale at the then carrying amount.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and estimated net realisable value. In respect of unsold properties, cost is determined by apportionment of the total land and development costs, other direct expenses and where applicable borrowing costs attributable to unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business or by management estimates of anticipated sale proceeds based on prevailing market conditions on an individual property basis less all estimated selling expenses after the balance sheet date.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its 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 the statement of profit or loss in the period in which it is incurred. In situations where recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

When the owner occupied properties are transferred to investment properties, valuations are performed before the transfer. Changes in the values of properties are dealt with as movements in the asset revaluation reserve.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel properties	2.30% – 5%
Land and buildings	2% – 6%
Tunnels, dams, water mains, reservoirs and pipelines	3% – 9%
Plant and machinery	4% – 25%
Furniture, fixtures and equipment	4% – 32%
Leasehold improvements	Over the shorter of three to five years and the lease terms
Motor vehicles	8% – 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transactions costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" 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 accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Properties under development for future use as investment properties have been accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under development are capitalised as part of the carrying amounts of the investment properties under development. Investment properties under development are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under development and their carrying amounts is recognised in the statement of profit or loss in the period in which they arise.

If the fair value of an investment property under development is at present not reliably determinable but is expected to be reliably determinable when construction is complete, such investment property under development is stated at cost until either its fair value becomes reliably determinable or development is completed, whichever is earlier.

2.4 Summary of Significant Accounting Policies (continued)

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 by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment or intangible assets.

Service concession arrangements

A service concession arrangement refers to a contractual service arrangement granted by a government authority in Mainland China (the "Grantor") to allow the Group to operate an infrastructure to provide service to the public. Such arrangement involves the Group to develop, finance, operate, and maintain the public-service infrastructure for a specified period of time for a service fee. At the end of the service period, the Group is obliged to hand over the infrastructure to the Grantor in a specified condition for little or no incremental consideration.

Such service concession arrangement is governed by a contract between the Group and the relevant Grantor which sets out, inter alia, performance standards, the mechanism for service fee adjustment, specific obligations of the Group for the maintenance of the infrastructure and arrangement for arbitrating disputes.

A service concession arrangement is classified as a financial asset model under HK(IFRIC)-Int 12 and is recognised as a financial asset – *Receivables under a service concession arrangement* when (a) the Group has an unconditional right to receive cash or another financial asset from, or at the direction of, the Grantor for the construction service rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and the specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. During the period of construction of the infrastructures, the relevant portion of consideration of construction services rendered included in the receivables under service concession arrangements is accounted for as "contract assets (applicable from 1 January 2018)" and "loans and receivables (applicable before 1 January 2018)". Upon completion of construction, the relevant portions of consideration of construction services rendered included in the receivables under a service concession arrangement is accounted for as financial assets under the accounting policy for "financial assets at amortised cost (policies under HKFRS 9 applicable from 1 January 2018)" and as loans and receivables (policies under HKAS 39 applicable before 1 January 2018)".

A service concession arrangement is classified as an intangible asset model under HK(IFRIC)-Int 12 and is recognised as an intangible asset – *Operating concession* rights when the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent to the extent that the public uses the service. During the period of construction of the infrastructures, the relevant portion of consideration of construction services rendered included in the operating concession rights is accounted for as "contract assets (applicable from 1 January 2018)" and "intangible assets (other than goodwill)". Upon completion of construction, the relevant portion of consideration of construction services rendered included in operating concession rights is accounted for as "intangible assets (other than goodwill)".

If the Group is paid partly by a financial asset and partly by an intangible asset, in such case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Amortisation of operating concession rights other than a toll road is provided on the straight-line basis to write off their costs over the concession periods of the respective service concession arrangements.

Amortisation of a toll road is provided to write off the costs on a unit-of-usage basis where the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the service concession periods. It is the Group's policy to review regularly, the projected total traffic volume throughout the concession periods of the respective service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (equity investment), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised 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 marketplace.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investment)

Upon initial recognition, the Group can elect to classify irrevocably its equity investment as equity investment designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investment designated at fair value through other comprehensive income is not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised 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 marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. 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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in revenue or other income, as appropriate, in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are financial assets with fixed and determinable payments that are designated as available for sale.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial asset revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all 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 enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due from the end of the credit term. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increase in the fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as other income in the statement of profit or loss. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, and payables, net of directly attributable transaction costs.

The Group's financial liabilities include payables, accruals and other liabilities, amounts due to non-controlling equity holders of subsidiaries, and bank and other borrowings.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the expected credit loss allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Deferred revenue

Deferred revenue consists of a prepaid rental fee received from a tenant and coupon liabilities recognised for credit awards granted to customers (for accounting period before 1 January 2018) in accordance with the credit award programme.

Revenue from the prepaid rental fee is recognised as rental income on a time proportion basis over the lease term.

Coupon liabilities (for accounting period before 1 January 2018) are recognised based on the fair value of credit awards granted to customers in accordance with the credit award programme and the Group's past experience on the level of redemption of credit awards, and are recorded in payables, accruals and other liabilities. Revenue of the Group is deducted when the credit awards are recognised.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred revenue account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

The Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised 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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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 amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer 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.

Depending on the terms of the contract and the laws that apply to the contract, control of the assets may be transferred over time or at a point of time.

The Group satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

- 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 asset is created or enhanced.

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

If none of the above conditions are met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

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

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the Group provides more than one service in a contract, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) *Construction services income and income from water pipeline installation*
Revenue is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction and installation services.

(b) *Water distribution income*
Revenue is recognised either when the water is supplied to customers or over the service period, depending on the terms of the contracts and the laws that apply to the contracts.

With respect to the water distribution to Hong Kong, revenue is recognised over the service period for the supply of a target volume of water; and with respect to the water distribution to the PRC, revenue is recognised at the point in time when the control of the water is transferred to the customers which generally coincide with delivery of water sold.

(c) *Income from provision of sewage treatment services*
Revenue is recognised over the service period when the customers simultaneously receive and consume the benefits over the period of services rendered by the Group.

(d) *Income from sale of properties*
Revenue is recognised at the point in time when the customer obtains the physical possession or the legal title of the completed properties and the Group has present right to payment and the collection of the consideration is probable.

(e) *Income from sale of goods and electricity*
Revenue is recognised at the point in time when the control of the assets are transferred to the customers which generally coincide with delivery and acceptance of the assets sold.

(f) *Commission income from concessionaire sales*
Commission income is recognised at the point in time when the control of goods is passed to customers by department stores which generally coincide with delivery and acceptance of the assets sold.

(g) *Income from toll road and bridge operation*
Revenue is recognised over the period upon the passage of vehicles through the expressway.

(h) *Income from hotel operation*
Revenue is recognised over the period in which such services have been rendered when the customers simultaneously receive and consume the benefits over the period of services rendered by the Group.

(i) *Income from property management, hotel management and construction project management*
Revenue is recognised over the period in which the related services are rendered when customers simultaneously receive and consume the benefits over the period of services rendered by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Finance income from service concession arrangements is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) commissions from concessionaire sales, upon the sale of goods by the department stores;

(c) income from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold;

(d) rental income, on a time proportion basis over the lease terms;

(e) from the sale of water:

    (i) with respect to the sale of water to the Hong Kong Special Administrative Region (''HKSAR''), based on a fixed amount for a target volume of water supplied; and

    (ii) with respect to the sale of water in the PRC, based on the volume of water supplied;

(f) from sewage treatment and related services, in the period in which such services are rendered;

(g) from construction services, based on the accounting policy for "Construction contracts (applicable before 1 January 2018)";

(h) from the sale of electricity, based on the consumption recorded by meter readings;

(i) hotel revenue from room rental, food and beverage sales, when the services are rendered;

(j) from hotel management services, in the period in which such services are rendered;

(k) toll revenue from road and bridge operation, upon the passage of vehicles through the expressway;

(l) interest from available-for-sale financial assets, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;

(m) investment income from available-for-sale financial assets upon maturity of investments; and

(n) dividend income, when the shareholders' right to receive payments has been established.

2.4 Summary of Significant Accounting Policies (continued)

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

Construction contracts refer to services rendered in construction of the infrastructure under service concession arrangements. Where a financial asset is recognised under a service concession arrangement, the amount received and receivable for the construction service is measured initially at fair value. It is subsequently measured at amortised cost, i.e. the amount initially recognised plus the cumulative interest on the amount minus repayments. Where an intangible asset is recognised under a service concession arrangement, the construction value of the related asset is classified as a right to receive a licence to charge users of the infrastructure. The Group measures the fair value of the consideration received and receivable at a rate consistent with the prevailing market rate that is applicable to similar construction service rendered in a similar location at the date of entering into the related agreement, and is recognised by reference to the stage of completion of the construction.

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Share-based arrangements

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based arrangements, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model, further details of which are given in note 31 to the financial statements.

2.4 Summary of Significant Accounting Policies (continued)

Share-based arrangements (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based arrangements, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the statement of 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 mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes (the "CP Schemes") operated by the respective local municipal governments. These subsidiaries are required to contribute certain percentages of their payroll costs to the CP Schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the CP Schemes.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries and associates operating in Mainland China are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, cash flows of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(a) Determining the timing of satisfaction of construction services

The Group concluded that revenue for construction services is to be recognised over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

The Group determined that the input method is the best method in measuring the progress of the construction services because there is a direct relationship between the Group's effort and the transfer of services to the customer. The Group recognises revenue on the basis of the actual costs incurred relative to the estimated total costs to complete the services.

(b) Principal versus agent considerations

The Group enters into contracts with its customers to acquire the goods consigned by the suppliers at the Group's department stores. Under these contracts, the Group provides consignment services. The Group determined that it does not control the goods before they are transferred to customers, and it does not have the ability to direct the use of the goods or obtain benefits from the goods. The following factors indicate that the Group does not control the goods before they are being transferred to customers. Therefore, the Group determined that it is an agent in these contracts.

(i) The Group does not have inventory risk before or after the specified goods have been transferred to the customer as the specified goods are consigned by the suppliers only; and

(ii) The Group has no discretion in establishing the price for the specified goods. The Group's consideration in these contracts is only based on the difference between the price purchased by the customer and the final price negotiated by the Group with the suppliers.

In addition, the Group concluded that it transfers control over its services (i.e., arranging for the provision of the goods from the suppliers), at a point in time, upon receipt by the customer of the goods, because this is when the customer benefits from the Group's agency service.

(c) Determining whether the loyalty points provide material rights to customers

The Group's department store operation segment operates a loyalty points programme, which allows customers to accumulate points when they purchase products in the Group's department stores. The points can be redeemed as cash dollars, subject to a minimum number of points obtained. The Group assessed whether the loyalty points provide a material right to the customer that needs to be accounted for as a separate performance obligation.

The Group determined that the loyalty points provide a material right that the customer would not receive without entering into the contract. The cash dollars the customer would receive by exercising the loyalty points do not reflect the stand-alone selling price that a customer without an existing relationship with the Group would pay for those products. The customers' right also accumulates as they purchase additional products.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(ii) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(iii) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(iv) Classification between investment properties and properties held for sale

The Group determines whether a property qualifies as an investment property or a property held for sale, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both.

Properties held for sale are properties held by the Group with intention for sale in the Group's ordinary course of business. Judgement is made on an individual property basis to determine whether properties are classified as investment properties or properties held for sale.

(v) Investment properties under development

Properties under construction or development for future use as investment properties are classified as investment properties under development. If the fair value cannot be reliably determined, the investment properties under development will be measured at cost until such time as fair value can be reliably determined.

The Group has to exercise judgement in determining when the fair value of investment properties under development can be reliably measured, which might include the consideration of (i) whether the construction permits have been obtained; (ii) whether the development plans have been approved; and (iii) whether the remaining construction cost can be accurately estimated. Other indications may also be appropriate in light of the facts and circumstances of individual developments.

(vi) Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(vii) Classification between intangible assets or financial assets and property, plant and equipment under service concession arrangements

The Group makes judgement in determining whether a service concession arrangement is classified as an intangible asset or financial asset in accordance with HK(IFRIC)-Int 12, or as property, plant and equipment in accordance with HKAS 16. For a service concession arrangement where (a) the Grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the Grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognised.

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognise a service concession arrangement as an intangible asset if the above conditions are not fulfilled.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Estimation of fair values of investment properties

The best evidence of fair value is current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices;

(c) discounted cash flow projections, based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and

(d) income capitalisation approach, which is based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile.

The carrying amount of investment properties at fair value as at 31 December 2018 was HK$12,833,039,000 (2017: HK$12,364,435,000).

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(ii) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The carrying amount of property, plant and equipment, excluding construction in progress, as at 31 December 2018 was HK$6,635,684,000 (2017: HK$7,150,100,000).

(iii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2018 was HK$301,883,000 (2017: HK$303,605,000) in aggregate. Further details of impairment test of goodwill are set out in note 16 to the financial statements.

(iv) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets with indefinite lives are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Land appreciation tax

Under the Detailed Rules for the Implementation of Provisional Regulations on Land Appreciation Tax ("LAT"), all gains arising from the transfer of real estate properties in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

The subsidiaries of the Group that recorded sales of property assets in Mainland China are subject to LAT, which has been included in income tax. However, the implementation of LAT varies amongst various Mainland China cities and the Group has not finalised certain of its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact income tax and provisions for LAT in the period in which such determination is made.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(vi) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2018 was HK$38,170,000 (2017: Nil). The amount of unrecognised tax losses as at 31 December 2018 was HK$1,045,885,000 (2017: HK$1,289,226,000). Further details are set out in note 29 to the financial statements.

(vii) Deferred tax liabilities of withholding taxes

Deferred tax liabilities are recognised in respect of the unremitted earnings of the PRC subsidiaries and associates generated subsequent to 1 January 2008, except to the extent that the parent or investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, which is based upon the estimated timing of dividend distribution. The carrying amount of deferred tax liabilities in respect of withholding tax as at 31 December 2018 was HK$723,446,000 (2017: HK$803,245,000).

(viii) Fair value of available-for-sale financial assets

Before 1 January 2018, the available-for-sale financial assets had been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation required the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they were subject to uncertainty. The carrying amount of available-for-sale financial assets as at 31 December 2017 was HK$8,093,040,000.

(ix) Progress of construction contracts

The Group recognises revenue from construction contracts in relation to the service concession arrangements according to the progress of the respective contracts. The Group's management estimates the progress of the construction based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken, the date at which the activity is entered into and the date when the activity is completed may fall into different accounting periods, the Group reviews and revises the estimates of both the contract revenue and the contract costs in the budget prepared for each construction contract as the contract progresses.

(x) Fair value of operating concession rights and receivables under service concession arrangements

The Group recognises consideration received or receivable as a financial asset or an intangible asset at the fair value of the service concession arrangements.

The estimation of the consideration of a service concession arrangement as a financial asset or an intangible asset, where applicable, requires the Group to make an estimate of a number of factors, which include, inter alia, the fair value of the construction services provided, if applicable, expected level of services to be provided by the Group over the service concession period, guaranteed receipts and unguaranteed receipts, and an appropriate discount rate in order to calculate the present value of these cash flows. These estimates are determined by the Group's management based on its experience and assessment on current and future market conditions. The carrying amounts of operating concession rights and receivables under service concession arrangements as at 31 December 2018 were HK$13,047,462,000 (2017: HK$14,113,313,000) and HK$1,464,719,000 (2017: HK$934,765,000), respectively.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(xi) Estimation of net realisable values of properties held for sale under development and completed properties held for sale

The Group assesses the carrying amounts of properties held for sale under development and completed properties held for sale according to their estimated net realisable value based on the realisability of these properties, taking into account construction costs to completion based on committed contracts, the existing development plans and the estimation of selling prices of the properties of comparable locations and conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The carrying amounts of properties held for sale under development and completed properties held for sale as at 31 December 2018 were HK$5,831,502,000 (2017: HK$5,748,595,000) and HK$5,053,081,000 (2017: HK$417,595,000), respectively.

(xii) Estimation of total budgeted costs and costs to completion for properties held for sale under development and investment properties under development

Total budgeted costs for properties held for sale under development and investment properties under development comprise (i) prepaid land lease payments; (ii) building costs; and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties held for sale under development and investment properties under development, management makes reference to information such as (i) current offers from contractors and suppliers; (ii) recent offers agreed with contractors and suppliers; and (iii) professional estimation on construction and material costs.

(xiii) Purchase price allocation

The purchase price allocation for business combinations requires management estimations to determine the fair values of asset acquired, liabilities assumed and the related deferred tax liabilities arising from fair value adjustments. The fair values of assets and liabilities acquired on the acquisition dates are set out in note 34 to the financial statements.

(xiv) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs and the carrying amounts of the Group's trade receivables and contract assets are disclosed in note 23 and note 18 to the financial statements, respectively.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has seven reportable operating segments as follows:

(i) The water resources segment engages in water distribution, sewage treatment, and construction of water supply and sewage treatment infrastructure for customers in Mainland China and Hong Kong;

(ii) The property investment and development segment mainly invests in various properties in Hong Kong and Mainland China that are held for rental income purposes and engages in the development and sale of properties in Mainland China. This segment also provides property management services to certain commercial properties;

(iii) The department store operation segment operates department stores, which engages in sale of goods and concessionaire sales, in Mainland China;

(iv) The electric power generation segment operates coal-fired power plants supplying electricity and steam in the Guangdong Province, Mainland China;

(v) The hotel operation and management segment operates the Group's hotels and provides hotel management services to certain third parties' hotels in Hong Kong and Mainland China;

(vi) The road and bridge segment invests in road and bridge projects, which engages in toll road operation and road management in Mainland China; and

(vii) The "others" segment provides treasury services in Hong Kong and Mainland China and engages in the provision of corporate services to other segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that bank interest income, interest and investment income from available-for-sale financial assets, gain on bargain purchase, gain on disposal of a subsidiary, interest income from financial assets at fair value through profit or loss and other financial assets at amortised cost, fair value gains on financial assets at fair value through profit or loss, finance costs and share of profits less losses of associates are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged bank deposits, cash and cash equivalents, restricted bank balances, financial assets at fair value through profit or loss, equity investment designated at fair value through other comprehensive income, other financial assets at amortised cost, available-for-sale financial assets and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, tax payables, deferred tax liabilities, loans from a fellow subsidiary and other unallocated liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Intersegment sales are eliminated in full on consolidation.

4. Operating Segment Information (continued)

(a) Operating segments

	Water resources		Property investment and development		Department store operation	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Segment revenue						
Sales to external customers	**8,235,422**	7,698,047	**1,654,263**	1,355,338	**716,497**	719,677
Intersegment sales	**–**	–	**130,229**	124,668	**–**	–
Other income and gains from external sources	**23,544**	63,136	**1,235**	4,446	**72,118**	58,565
Other income from intersegment transactions	**3,035**	2,957	**1,725**	1,152	**–**	–
Total	**8,262,001**	7,764,140	**1,787,452**	1,485,604	**788,615**	778,242
Segment results	**4,179,049**	3,901,703	**1,148,017**	1,097,192	**185,754**	202,651
Bank interest income						
Interest income from financial assets at fair value through profit or loss						
Interest income from other financial assets at amortised cost						
Fair value gains on financial assets at fair value through profit or loss						
Interest income from available-for-sale financial assets						
Investment income from available-for-sale financial assets						
Gain on bargain purchase	**–**	–	**296,737**	1,212,514	**–**	–
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	–
Finance costs						
Share of profits less losses of:						
associates	**99,320**	56,562	**–**	–	**8,123**	(16,283)
Profit before tax						
Income tax expense						
Profit for the year						

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Electric power generation		Hotel operation and management		Road and bridge	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**1,312,672**	1,064,044	**692,786**	647,178	**751,960**	684,555
Intersegment sales	**226,675**	197,142	**–**	–	**–**	–
Other income and gains from external sources	**32,755**	28,241	**333**	682	**18,519**	4,567
Other income from intersegment transactions	**–**	–	**–**	–	**–**	–
Total	**1,572,102**	1,289,427	**693,119**	647,860	**770,479**	689,122
Segment results	**221,803**	94,612	**138,624**	119,865	**489,844**	379,814
Bank interest income						
Interest income from financial assets at fair value through profit or loss						
Interest income from other financial assets at amortised cost						
Fair value gains on financial assets at fair value through profit or loss						
Interest income from available-for-sale financial assets						
Investment income from available-for-sale financial assets						
Gain on bargain purchase	**–**	–	**–**	–	**–**	–
Gain on disposal of a subsidiary	**–**	–	**–**	2,968	**–**	–
Finance costs						
Share of profits less losses of: associates	**29,142**	61,296	**12**	(22)	**–**	–
Profit before tax						
Income tax expense						
Profit for the year						

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Others		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**–**	–	**–**	–	**13,363,600**	12,168,839
Intersegment sales	**–**	–	**(356,904)**	(321,810)	**–**	–
Other income and gains from external sources	**1,140**	1,140	**–**	–	**149,644**	160,777
Other income from intersegment transactions	**5,808**	5,762	**(10,568)**	(9,871)	**–**	–
Total	**6,948**	6,902	**(367,472)**	(331,681)	**13,513,244**	12,329,616
Segment results	**(295,623)**	116,018	**1,714**	228	**6,069,182**	5,912,083
Bank interest income					**165,232**	288,174
Interest income from financial assets at fair value through profit or loss					**259,120**	–
Interest income from other financial assets at amortised cost					**78,492**	–
Fair value gains on financial assets at fair value through profit or loss					**39,250**	–
Interest income from available-for-sale financial assets					**–**	153,317
Investment income from available-for-sale financial assets					**–**	60,749
Gain on bargain purchase	**–**	–	**–**	–	**296,737**	1,212,514
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	2,968
Finance costs					**(149,964)**	(110,593)
Share of profits less losses of: associates	**–**	–	**–**	–	**136,597**	101,553
Profit before tax					**6,894,646**	7,620,765
Income tax expense					**(1,393,558)**	(1,617,111)
Profit for the year					**5,501,088**	6,003,654

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Water resources		Property investment and development		Department store operation	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**15,354,265**	15,666,149	**28,863,058**	23,353,269	**133,404**	179,666
Investments in associates	**2,465,918**	2,386,302	**–**	–	**150,469**	149,515
Unallocated assets						
Total assets						
Segment liabilities	**2,058,744**	2,127,696	**3,322,071**	1,778,459	**881,210**	921,422
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**1,040,963**	1,027,324	**63,266**	54,786	**21,223**	20,666
Exchange differences, net	**(148,715)**	94,475	**(102,217)**	133,369	**8,287**	(9,569)
Impairment losses recognised/(reversed) for trade receivables in the statement of profit or loss, net	**(222)**	(441)	**–**	716	**(123)**	(276)
Changes in fair value of investment properties	**–**	–	**(230,102)**	(431,752)	**–**	–
Gain on bargain purchase	**–**	–	**(296,737)**	(1,212,514)	**–**	–
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	–
Loss/(gain) on disposal of property, plant and equipment, net	**1,216**	1,388	**(13)**	(1)	**748**	1,077
Capital expenditure*	**341,771**	899,232	**1,262,531**	4,189,775	**14,187**	16,771

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties including assets from the acquisitions of subsidiaries.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Electric power generation		Hotel operation and management		Road and bridge	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**2,600,628**	2,721,281	**1,860,656**	1,948,195	**3,057,294**	2,935,623
Investments in associates	**1,056,953**	1,140,356	**3,361**	3,511	**–**	–
Unallocated assets						
Total assets						
Segment liabilities	**585,790**	624,825	**188,879**	166,927	**182,634**	88,143
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**121,356**	112,190	**108,749**	106,070	**172,233**	164,164
Exchange differences, net	**(36,460)**	55,472	**5,811**	(9,186)	**(20,489)**	27,232
Impairment losses recognised/ (reversed) for trade receivables in the statement of profit or loss, net	**–**	–	**–**	1,841	**–**	–
Changes in fair value of investment properties	**–**	–	**–**	–	**–**	–
Gain on bargain purchase	**–**	–	**–**	–	**–**	–
Gain on disposal of a subsidiary	**–**	–	**–**	(2,968)	**–**	–
Loss/(gain) on disposal of property, plant and equipment, net	**–**	–	**4,527**	460	**1,960**	177
Capital expenditure*	**102,239**	56,223	**142,252**	15,683	**3,655**	4,194

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties including assets from the acquisitions of subsidiaries.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Others		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**9,182**	10,673	**–**	–	**51,878,487**	46,814,856
Investments in associates	**–**	–	**–**	–	**3,676,701**	3,679,684
Unallocated assets					**17,627,256**	16,044,474
Total assets					**73,182,444**	66,539,014
Segment liabilities	**153,461**	87,486	**–**	–	**7,372,789**	5,794,958
Unallocated liabilities					**16,349,206**	11,580,488
Total liabilities					**23,721,995**	17,375,446
Other segment information:						
Depreciation and amortisation	**1,077**	940	**–**	–	**1,528,867**	1,486,140
Exchange differences, net	**175,426**	(234,076)	**(1,713)**	(228)	**(120,070)**	57,489
Impairment losses recognised/ (reversed) for trade receivables in the statement of profit or loss, net	**–**	–	**–**	–	**(345)**	1,840
Changes in fair value of investment properties	**–**	–	**–**	–	**(230,102)**	(431,752)
Gain on bargain purchase	**–**	–	**–**	–	**(296,737)**	(1,212,514)
Gain on disposal of a subsidiary	**–**	–	**–**	–	**–**	(2,968)
Loss/(gain) on disposal of property, plant and equipment, net	**(24)**	–	**–**	–	**8,414**	3,101
Capital expenditure*	**333**	1,784	**–**	–	**1,866,968**	5,183,662

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties including assets from the acquisitions of subsidiaries.*

4. Operating Segment Information (continued)

(b) Geographical information

The following table presents the Group's geographical information regarding revenue and certain assets for the years ended 31 December 2018 and 2017.

	2018 HK$'000	2017 HK$'000
Revenue from external customers		
Hong Kong	279,053	257,972
Mainland China	13,084,547	11,910,867
	13,363,600	12,168,839

The revenue information above is based on the locations of the sales transactions.

	2018 HK$'000	2017 HK$'000
Non-current assets		
Hong Kong	2,348,044	2,271,291
Mainland China	40,955,988	40,720,837
	43,304,032	42,992,128

The non-current asset information above is based on the locations of the assets and excludes equity investment designated at fair value through other comprehensive income, available-for-sale financial assets and deferred tax assets.

(c) Information about a major customer

Revenue of approximately HK$4,792,590,000 (2017: HK$4,778,290,000) was derived from sales by the water resources segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. Revenue, Other Income and Gains

Revenue

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Income from water distribution, sewage treatment and related services*	8,235,422	7,698,047
Rental, hotel income and management fee income	2,037,615	1,843,285
Sale of properties	309,434	159,231
Commissions from concessionaire sales	642,890	644,997
Sale of goods	73,607	74,680
Sale of electricity	1,312,672	1,064,044
Toll revenue and management fee income	751,960	684,555
	13,363,600	12,168,839

* *Including finance income from service concession arrangements of HK$43,823,000 (2017: HK$34,112,000) from the sewage treatment operation.*

5. Revenue, Other Income and Gains (continued)

Revenue (continued)

(i) Disaggregated revenue information

For the year ended 31 December 2018

	2018 HK$'000
(a) Types of goods or services:	
Water resources segment	
Income from water distribution – Hong Kong	4,792,590
Income from water distribution – the PRC	2,183,695
Income from sewage treatment services	109,637
Income from construction services	762,453
Income from water pipeline installation	343,224
Property investment and development segment	
Management fee income	213,084
Sale of properties	309,434
Department store operation segment	
Commission income from concessionaire sales	642,890
Sale of goods	73,607
Electric power generation segment	
Sale of electricity	1,312,672
Hotel operation and management segment	
Hotel income	664,017
Management fee income	28,769
Road and bridge segment	
Toll revenue	745,300
Management fee income	6,660
Revenue from contracts with customers	12,188,032
Revenue from other sources	
Property investment and development segment	
Rental income	1,131,745
Water resources segment	
Finance income from service concession arrangements	43,823
Total revenue	13,363,600

5. Revenue, Other Income and Gains (continued)

Revenue (continued)

(i) Disaggregated revenue information (continued)
For the year ended 31 December 2018 (continued)

	2018 HK$'000
(b) Geographical locations*:	
Mainland China	
Water resources segment	8,191,599
Property investment and development segment	522,518
Department store operation segment	716,497
Electric power generation segment	1,312,672
Hotel operation and management segment	470,591
Road and bridge segment	751,960
	11,965,837
Hong Kong	
Hotel operation and management segment	222,195
Revenue from contracts with customers	12,188,032
Revenue from other sources	
Rental income	1,131,745
Finance income from service concession arrangements	43,823
	13,363,600

* *The geographical location is based on the location of which the services were rendered or goods were delivered from.*

(ii) Performance obligations
Information about the Group's performance obligations is summarised below:

Water distribution
With respect to the water distribution to Hong Kong, the performance obligation is satisfied when the supply of water is rendered over the service period and payment is generally due within 30 days from the date of billing.

With respect to the water distribution to the PRC, the performance obligation is satisfied upon the supply of water to customers and payment is generally due within 60 days from the date of billing.

Construction services
The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Water pipeline installation
The performance obligations is satisfied over time as services are rendered. The payment is generally due within 90 days from the date of billing.

Sewage treatment services
The performance obligation is satisfied over time as services are rendered. The payment is generally due within 90 days from the date of billing.

Toll road and bridge operation services
The performance obligation is satisfied over time upon the passage of vehicles through the expressway. The payment is generally due upon the passage.

Management services
The performance obligation is satisfied over time as services are rendered. The payment is generally due within 30 days from the date of billing.

5. Revenue, Other Income and Gains (continued)

Revenue (continued)

(ii) Performance obligations (continued)

Hotel operation

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. The payment is generally due upon the services are rendered.

Sale of electricity

The performance obligation is satisfied upon supply of the electricity and payment is generally due within 30 days from the date of billing.

Sale of goods and commission income from concessionaire sales

The performance obligation is satisfied upon delivery of the goods at the Group's department stores to customers and payment is generally due upon delivery.

Sale of properties

The performance obligation is satisfied 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.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) with an original expected duration of one year or more as at 31 December 2018 are follows:

	2018 HK$'000
Expected to be recognised within one year	**7,583,983**
Expected to be recognised after one year	**16,911,961**
	24,495,944

The transaction prices associated with unsatisfied or partially unsatisfied performance obligations does not include variable consideration that is constrained.

For all other contracts, in which the performance obligations are expected to be recognised with an original expected duration of one year or less, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Other income and gains

	2018 HK$'000	2017 HK$'000
Bank interest income	**165,232**	288,174
Interest income from financial assets at fair value through profit or loss	**259,120**	–
Interest income from other financial assets at amortised cost	**78,492**	–
Interest income from receivables under a cooperative arrangement	**12,731**	–
Fair value gains on financial assets at fair value through profit or loss	**39,250**	–
Interest income from available-for-sale financial assets	**–**	153,317
Investment income from available-for-sale financial assets	**–**	60,749
Gain on disposal of a subsidiary	**–**	2,968
Others	**136,913**	160,777
	691,738	665,985
Gain on bargain purchase *(note 34)*	**296,737**	1,212,514
	988,475	1,878,499

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold*		1,249,343	1,049,967
Cost of services rendered*		3,183,453	2,818,490
Cost of properties sold*		251,327	127,986
Depreciation	13	504,463	483,909
Recognition of prepaid land lease payments	15	12,227	13,844
Amortisation of operating concession rights*	18(a)	1,012,177	988,387
Impairment losses recognised/(reversed) for trade receivables, net^	23	(345)	1,840
Minimum lease payments under operating leases in respect of land and buildings		106,760	99,486
Contingent rents under operating leases		16,140	13,371
Auditor's remuneration		10,359	12,783
Employee benefit expenses:			
Wages and salaries (excluding directors' fee)		1,206,070	1,047,507
Equity-settled share option benefits		109	693
Pension scheme contributions		177,298	129,695
Less: Forfeited contributions		(128)	(39)
Net pension scheme contributions#		177,170	129,656
Less: Amount capitalised		(47,303)	(40,328)
		1,336,046	1,137,528
Gross rental income from investment properties		(1,151,415)	(1,047,166)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		158,020	130,742
Net rental income from investment properties		(993,395)	(916,424)
Loss on disposal of items of property, plant and equipment, net^		8,414	3,101
Government subsidies**^		(18,936)	(44,374)

* *These costs and expenses are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

** *The government subsidies recognised during the year mainly represented subsidies received from certain government authorities in respect of the fulfilment of certain specific criteria by the Group.*

As at 31 December 2018 and 2017, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years.

^ *Included in "Other operating income/(expenses), net" on the face of the consolidated statement of profit or loss.*

7. Finance Costs

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank and other borrowings	146,690	91,765
Interest on loan from the ultimate holding company *(note 39(a)(v))*	749	–
Interest expense charged by fellow subsidiaries *(note 39(a)(vi))*	20,940	18,828
Finance costs incurred	168,379	110,593
Less: Amount capitalised in properties held for sale under development and investment properties under construction	(18,415)	–
Finance costs charged for the year	149,964	110,593

The capitalised interest rate applied to funds borrowed and used for the development of properties is between 5.46% and 6.65% per annum (2017: Nil).

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	3,619	3,619
Non-executive directors	–	–
	3,619	3,619
Other emoluments:		
Salaries, allowances and benefits in kind	5,152	4,943
Performance related bonuses	3,044	3,006
Pension scheme contributions	572	580
Less: Forfeited contributions	–	–
Net pension scheme contributions	572	580
Equity-settled share option benefits, net	56	392
Total directors' remuneration	12,443	12,540

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 HK$'000	2017 HK$'000
CHAN Cho Chak, John	749	749
LI Kwok Po, David	770	770
FUNG Daniel Richard	700	700
CHENG Mo Chi, Moses	700	700
WU Ting Yuk, Anthony	700	700
	3,619	3,619

There were no other emoluments to the independent non-executive directors during the year (2017: Nil).

8. Directors' Remuneration (continued)

(b) Executive directors and other non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Net pension scheme contributions HK$'000	Total HK$'000
2018					
Executive directors:					
HUANG Xiaofeng	–	–	–	–	–
WEN Yinheng	–	1,142	1,887	452	3,481
HO LAM Lai Ping, Theresa	–	2,176	683	60	2,919
TSANG Hon Nam	–	1,834	474	60	2,368
	–	5,152	3,044	572	8,768
Non-executive directors:					
CAI Yong	–	–	–	–	–
ZHANG Hui	–	–	–	–	–
ZHAO Chunxiao	–	–	–	–	–
LAN Runing	–	–	–	–	–
LI Wai Keung	–	–	–	–	–
	–	5,152	3,044	572	8,768

In addition to the above, for the year ended 31 December 2018, the amount of equity-settled share option benefits recognised and allocated to directors of the Company were as follows: (1) HK$11,000 to Mr. Huang Xiaofeng; (2) HK$6,000 to Mr. Wen Yinheng; (3) HK$5,000 to Mrs. Ho Lam Lai Ping, Theresa; (4) HK$5,000 to Mr. Tsang Hon Nam; (5) HK$9,000 to Mr. Zhang Hui; (6) HK$10,000 to Ms. Zhao Chunxiao; and (7) HK$10,000 to Mr. Li Wai Keung, with a total amount of HK$56,000 being recognised in the statement of profit or loss. The aforementioned "equity-settled share option benefits" represent the aggregate of the amortised fair value of share options granted to directors of the Company over the vesting period that were charged to the statement of profit or loss.

8. Directors' Remuneration (continued)

(b) Executive directors and other non-executive directors (continued)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Net pension scheme contributions HK$'000	Total HK$'000
2017					
Executive directors:					
HUANG Xiaofeng	–	–	–	–	–
WEN Yinheng	–	847	1,834	460	3,141
HO LAM Lai Ping, Theresa	–	2,198	665	60	2,923
TSANG Hon Nam	–	1,898	507	60	2,465
	–	4,943	3,006	580	8,529
Non-executive directors:					
CAI Yong	–	–	–	–	–
WU Jianguo (retired on 23 June 2017)	–	–	–	–	–
ZHANG Hui	–	–	–	–	–
ZHAO Chunxiao	–	–	–	–	–
LAN Runing	–	–	–	–	–
LI Wai Keung	–	–	–	–	–
	–	4,943	3,006	580	8,529

In addition to the above, for the year ended 31 December 2017, the amount of equity-settled share option benefits recognised and allocated to directors of the Company were as follows: (1) HK$188,000 to Mr. Huang Xiaofeng; (2) HK$98,000 to Mr. Wen Yinheng; (3) HK$81,000 to Mrs. Ho Lam Lai Ping, Theresa; (4) HK$81,000 to Mr. Tsang Hon Nam; (5) HK$166,000 to Mr. Zhang Hui; (6) HK$167,000 to Ms. Zhao Chunxiao; (7) HK$175,000 to Mr. Li Wai Keung; and (8) a reversal of HK$564,000 from Mr. Wu Jianguo, with a total amount of HK$392,000 being recognised in the statement of profit or loss. The aforementioned "equity-settled share option benefits" represent the aggregate of the amortised fair value of share options granted to directors of the Company over the vesting period that were charged to the statement of profit or loss.

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2017: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the other three (2017: two) highest paid employees who are not directors of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	2,368	2,738
Performance related bonuses	5,423	1,977
Equity-settled share option benefits	10	130
Pension scheme contributions	192	101
	7,993	4,946

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2018	2017
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	2	1
HK$2,500,001 – HK$3,000,000	–	1
HK$3,000,001 – HK$3,500,000	1	–
	3	2

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC Corporate Income Tax Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%. Land appreciation tax ("LAT") has been provided in accordance with the requirements set forth in the relevant PRC laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation values, with certain allowable deductions.

	2018 HK$'000	2017 HK$'000
Current – Hong Kong		
Charge for the year	18,150	15,618
Overprovision in prior years	(197)	(80)
Current – Mainland China		
Charge for the year	1,606,010	1,439,053
Overprovision in prior years	(73,701)	(57)
Deferred tax *(note 29)*	(156,704)	162,577
Total tax charge for the year	1,393,558	1,617,111

10. Income Tax Expense (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2018					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,169,373		5,725,273		6,894,646	
Tax at the statutory tax rates	192,947	16.5	1,431,318	25.0	1,624,265	23.6
Lower tax rates for specific provinces or enacted by local authority	–	–	(56,327)	(1.0)	(56,327)	(0.8)
Adjustments in respect of current tax of previous periods	(197)	–	(73,701)	(1.3)	(73,898)	(1.1)
Profits attributable to associates	–	–	(27,089)	(0.5)	(27,089)	(0.4)
Income not subject to tax	(273,259)	(23.4)	(229,451)	(4.0)	(502,710)	(7.3)
Expenses not deductible for tax	108,927	9.3	59,999	1.0	168,926	2.5
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	179,232	3.1	179,232	2.6
Tax losses utilised from previous periods	–	–	(27,691)	(0.5)	(27,691)	(0.4)
Tax losses not recognised	3,008	0.3	55,258	1.0	58,266	0.8
LAT in Mainland China	–	–	84,264	1.5	84,264	1.2
Release of deferred LAT liabilities	–	–	(88,694)	(1.5)	(88,694)	(1.3)
LAT deductible for calculation of income tax	–	–	(15,155)	(0.3)	(15,155)	(0.2)
Recognition of previously unrecognised tax losses	–	–	(2,520)	–	(2,520)	–
Recognition of previously unrecognised temporary difference	–	–	(45,379)	(0.8)	(45,379)	(0.7)
Temporary difference not recognised	–	–	123,864	2.2	123,864	1.8
Others	5,077	0.4	(10,873)	(0.2)	(5,796)	(0.1)
Tax charge at the Group's effective rates	36,503	3.1	1,357,055	23.7	1,393,558	20.2

10. Income Tax Expense (continued)

	2017					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,026,381		6,594,384		7,620,765	
Tax at the statutory tax rates	169,353	16.5	1,648,596	25.0	1,817,949	23.9
Lower tax rates for specific provinces or enacted by local authority	–	–	(53,354)	(0.8)	(53,354)	(0.7)
Adjustments in respect of current tax of previous periods	(80)	–	(57)	–	(137)	–
Profits attributable to associates	–	–	(27,620)	(0.4)	(27,620)	(0.4)
Income not subject to tax	(294,851)	(28.7)	(338,154)	(5.1)	(633,005)	(8.3)
Expenses not deductible for tax	139,012	13.5	184,884	2.8	323,896	4.3
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	185,941	2.8	185,941	2.4
Tax losses utilised from previous periods	(1,987)	(0.2)	(19,123)	(0.3)	(21,110)	(0.3)
Tax losses not recognised	4,213	0.4	27,985	0.4	32,198	0.4
LAT in Mainland China	–	–	83,619	1.3	83,619	1.1
Release of deferred LAT liabilities	–	–	(69,801)	(1.1)	(69,801)	(0.9)
Others	1,686	0.2	(23,151)	(0.3)	(21,465)	(0.3)
Tax charge at the Group's effective rates	17,346	1.7	1,599,765	24.3	1,617,111	21.2

11. Dividends

	2018 **HK$'000**	2017 HK$'000
Interim – HK16.0 cents (2017: HK14.5 cents) per ordinary share	**1,046,051**	947,984
Proposed final – HK37.5 cents (2017: HK34.0 cents) per ordinary share	**2,452,000**	2,223,000
	3,498,051	3,170,984

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The total final dividend payable is based on the total number of shares as at the date of approval of these financial statements by the board of directors which includes the shares issued subsequent to the end of the reporting period.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Company (continued)

The calculations of the basic and diluted earnings per share are based on:

	2018 HK$'000	2017 HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	5,015,119	5,685,371

	Number of shares 2018	2017
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	6,537,821,440	6,457,823,544
Effect of dilution of share options – weighted average number of ordinary shares assumed to have been issued at nil consideration	2,464,466	5,499,017
Weighed average number of ordinary shares during the year used in the diluted earnings per share calculation	6,540,285,906	6,463,322,561

13. Property, Plant and Equipment

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains, reservoirs and pipelines HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2018:									
Cost	2,773,934	2,177,778	869,271	4,281,020	690,839	348,710	47,213	334,461	11,523,226
Accumulated depreciation and impairment	(1,121,880)	(675,684)	(84,438)	(1,455,606)	(428,035)	(243,884)	(29,138)	–	(4,038,665)
Net carrying amount	1,652,054	1,502,094	784,833	2,825,414	262,804	104,826	18,075	334,461	7,484,561
At 1 January 2018, net of accumulated depreciation and impairment	1,652,054	1,502,094	784,833	2,825,414	262,804	104,826	18,075	334,461	7,484,561
Additions	937	50,371	34,030	14,512	582	51,780	9,512	322,078	483,802
Acquisition of a subsidiary *(note 34)*	–	–	–	–	4,616	–	20	–	4,636
Disposals and write-offs	(4,124)	(2,256)	–	(1,669)	(3,138)	(44)	(288)	(4,790)	(16,309)
Surplus on revaluation	–	78,729	–	–	–	–	–	–	78,729
Depreciation provided during the year *(note 6)*	(75,072)	(86,453)	(62,299)	(228,821)	(24,905)	(24,488)	(2,425)	–	(504,463)
Transfer and reclassification	–	7,168	259,456	107,508	(113,950)	–	–	(260,182)	–
Transfer to investment properties *(note 14)*	–	(225,485)	–	–	–	–	–	–	(225,485)
Exchange realignment	(46,295)	(56,813)	(38,363)	(118,179)	(15,499)	(867)	(2,204)	(9,365)	(287,585)
At 31 December 2018, net of accumulated depreciation and impairment	1,527,500	1,267,355	977,657	2,598,765	110,510	131,207	22,690	382,202	7,017,886
At 31 December 2018:									
Cost	2,685,512	1,991,235	1,129,377	4,212,624	532,772	383,328	49,663	382,202	11,366,713
Accumulated depreciation and impairment	(1,158,012)	(723,880)	(151,720)	(1,613,859)	(422,262)	(252,121)	(26,973)	–	(4,348,827)
Net carrying amount	1,527,500	1,267,355	977,657	2,598,765	110,510	131,207	22,690	382,202	7,017,886

13. Property, Plant and Equipment (continued)

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains, reservoirs and pipelines HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2017:									
Cost	2,666,690	1,388,925	786,909	3,992,216	597,018	353,732	37,979	320,966	10,144,435
Accumulated depreciation and impairment	(1,007,899)	(557,221)	(54,418)	(1,202,715)	(376,827)	(230,318)	(23,294)	–	(3,452,692)
Net carrying amount	1,658,791	831,704	732,491	2,789,501	220,191	123,414	14,685	320,966	6,691,743
At 1 January 2017, net of accumulated depreciation and impairment	1,658,791	831,704	732,491	2,789,501	220,191	123,414	14,685	320,966	6,691,743
Additions	310	1,435	1,936	15,898	50,193	4,262	5,909	158,723	238,666
Acquisitions of subsidiaries *(note 34)*	–	100,322	17,500	3,079	5,130	–	875	–	126,906
Disposal of a subsidiary *(note 41)*	–	–	–	–	(983)	546	–	–	(437)
Disposals and write-offs	(54)	(1,426)	–	(2,694)	(1,010)	(138)	(573)	(766)	(6,661)
Surplus on revaluation	–	13,283	–	–	–	–	–	–	13,283
Depreciation provided during the year *(note 6)*	(74,755)	(75,247)	(28,422)	(232,350)	(42,344)	(26,508)	(4,283)	–	(483,909)
Transfer	–	48,009	–	102,219	11,607	–	259	(162,094)	–
Transfer from investment properties *(note 14)*	–	489,419	–	–	–	–	–	–	489,419
Exchange realignment	67,762	94,595	61,328	149,761	20,020	3,250	1,203	17,632	415,551
At 31 December 2017, net of accumulated depreciation and impairment	1,652,054	1,502,094	784,833	2,825,414	262,804	104,826	18,075	334,461	7,484,561
At 31 December 2017:									
Cost	2,773,934	2,177,778	869,271	4,281,020	690,839	348,710	47,213	334,461	11,523,226
Accumulated depreciation and impairment	(1,121,880)	(675,684)	(84,438)	(1,455,606)	(428,035)	(243,884)	(29,138)	–	(4,038,665)
Net carrying amount	1,652,054	1,502,094	784,833	2,825,414	262,804	104,826	18,075	334,461	7,484,561

As at 31 December 2018, property ownership certificates of certain buildings with a net carrying value of HK$174,082,000 (2017: HK$203,045,000) have not been issued. The Group is in the process of obtaining the certificates.

14. Investment Properties

	Completed at fair value HK$'000	Under development at fair value HK$'000	Under development at cost HK$'000	Total HK$'000
Carrying amount at 1 January 2017	7,252,286	5,308,908	–	12,561,194
Additions	–	608,687	19,085	627,772
Acquisitions of subsidiaries *(note 34)*	25,525	–	3,449,553	3,475,078
Net gains from fair value adjustments	171,960	259,792	–	431,752
Transfer to property, plant and equipment, net *(note 13)*	(54,512)	(434,907)	–	(489,419)
Transfer	2,938,219	(2,938,219)	–	–
Transfer to properties held for sale under development	–	(1,529,838)	–	(1,529,838)
Exchange realignment	533,548	222,986	204,699	961,233
Carrying amount at 31 December 2017 and 1 January 2018	**10,867,026**	**1,497,409**	**3,673,337**	**16,037,772**
Additions	**17,607**	**56,391**	**624,388**	**698,386**
Borrowing costs capitalised	**–**	**–**	**10,337**	**10,337**
Acquisition of a subsidiary *(note 34)*	**483,929**	**–**	**–**	**483,929**
Net gains/(losses) from fair value adjustments	**235,568**	**(5,466)**	**–**	**230,102**
Transfer from property, plant and equipment, net *(note 13)*	**225,485**	**–**	**–**	**225,485**
Exchange realignment	**(474,217)**	**(70,693)**	**(191,927)**	**(736,837)**
Carrying amount at 31 December 2018	**11,355,398**	**1,477,641**	**4,116,135**	**16,949,174**

As at 31 December 2018, land use right certificates of certain leasehold land with a carrying value of Nil (2017: HK$2,857,482,000) have not been issued.

As at 31 December 2018, completed investment properties with carrying amounts of HK$412,009,000 (2017: Nil) was pledged to a bank as securities for bank borrowings granted to a subsidiary of the Group (note 27).

Included in the above investment properties was a land parcel located in Buxin under development. This investment property was carried at cost less any accumulated impairment losses as the directors are of the opinion that its fair value cannot be reliably determined as at the end of the reporting period and it was therefore measured at cost in the consolidated statement of financial position.

On an annual basis, the Group engages an external, independent and professionally qualified valuer to determine the fair values of the Group's investment properties. As at 31 December 2018, the fair values have been determined by Vigers Appraisal & Consulting Limited, at an aggregate amount of HK$12,833,039,000 (2017: HK$12,364,435,000) on an open market, existing use basis.

The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed.

Certain investment properties are leased to third parties, Guangdong Holdings, GDH Limited and certain fellow subsidiaries under operating leases, further summary details of which are included in notes 37, 39(a) and 40(B)(b) to the financial statements.

Further particulars of the Group's investment properties are included on page 184.

14. Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Warehouse properties	–	–	16,811	16,811
Residential/non-residential properties	–	–	11,504	11,504
Commercial properties	–	–	11,327,083	11,327,083
Investment properties under development	–	–	1,477,641	1,477,641
	–	–	12,833,039	12,833,039

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Warehouse properties	–	–	16,556	16,556
Residential/non-residential properties	–	–	11,293	11,293
Commercial properties	–	–	10,839,177	10,839,177
Investment properties under development	–	–	1,497,409	1,497,409
	–	–	12,364,435	12,364,435

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Reconciliation of fair value measurement categorised within Level 3 of the fair value hierarchy:

	Warehouse properties HK$'000	Residential/ non-residential properties HK$'000	Commercial properties HK$'000	Investment properties under development HK$'000	Total HK$'000
Carrying amount at 1 January 2017	–	–	7,252,286	5,308,908	12,561,194
Additions	–	–	–	608,687	608,687
Acquisitions of subsidiaries	15,195	10,330	–	–	25,525
Net gains from fair value adjustments	438	334	171,188	259,792	431,752
Transfer to property, plant and equipment, net	–	–	(54,512)	(434,907)	(489,419)
Transfer	–	–	2,938,219	(2,938,219)	–
Transfer to properties held for sale under development	–	–	–	(1,529,838)	(1,529,838)
Exchange realignment	923	629	531,996	222,986	756,534
Carrying amount at 31 December 2017 and at 1 January 2018	16,556	11,293	10,839,177	1,497,409	12,364,435
Additions	–	–	17,607	56,391	73,998
Acquisition of a subsidiary	–	–	483,929	–	483,929
Net gains/(losses) from fair value adjustments	1,054	758	233,756	(5,466)	230,102
Transfer from property, plant and equipment, net	–	–	225,485	–	225,485
Exchange realignment	(799)	(547)	(472,871)	(70,693)	(544,910)
Carrying amount at 31 December 2018	16,811	11,504	11,327,083	1,477,641	12,833,039

14. Investment Properties (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range 2018	Range 2017
Commercial properties located in Hong Kong:				
Office	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.ft. and per month)	**HK$22 to HK$36**	HK$22 to HK$35
		Market rent (per sq.ft. and per month)	**HK$34 to HK$36**	HK$33 to HK$35
		Term yield	**4%**	4%
		Market yield	**4.5%**	4.5%
Retail	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.ft. and per month)	**HK$110**	HK$107
		Market rent (per sq.ft. and per month)	**HK$110**	HK$102
		Term yield	**6%**	6%
		Market yield	**6.75%**	6.75%
Commercial properties located in Mainland China:				
Office	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.m. and per month)	**HK$72 to HK$115**	HK$75 to HK$121
		Market rent (per sq.m. and per month)	**HK$72 to HK$115**	HK$75 to HK$121
		Term yield	**7%**	7%
		Market yield	**8%**	8%
Retail	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.m. and per month)	**HK$38 to HK$475**	HK$37 to HK$501
		Market rent (per sq.m. and per month)	**HK$40 to HK$489**	HK$39 to HK$515
		Term yield	**4.5% to 5.5%**	4.5% to 5.5%
		Market yield	**5% to 6%**	5% to 6%
Office	Market approach	Market price (per sq.m.)	**HK$28,400 to HK$36,400**	HK$29,400 to HK$37,700
Retail	Market approach	Market price (per sq.m.)	**HK$64,900 to HK$124,200**	HK$67,600 to HK$129,200
Retail	Income capitalisation method	Capitalisation rate	**5%**	–
		Estimated rental per month (per sq.m.)	**HK$80 to HK$348**	–

14. Investment Properties (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties: (continued)

	Valuation techniques	Significant unobservable inputs	Range 2018	Range 2017
Warehouse and residential/ non-residential properties	Market approach	Estimated land value (per sq.m.)	**HK$405 to HK$458**	HK$425 to HK$481
	Depreciated replacement cost method	Estimated cost of construction (per sq.m.)	**HK$2,518 to HK$2,987**	HK$2,400 to HK$2,900
Investment properties under development:				
Retail	Income approach, more specifically, a residual approach	Gross development value (per sq.m.)	**HK$27,400 to HK$30,800**	HK$28,700 to HK$32,300
		Estimated construction cost (per sq.m.)	**HK$7,400 to HK$8,000**	HK$7,700 to HK$8,400
		Developer's profit	**23%**	23%
Car Parking Space	Income approach, more specifically, a residual approach	Gross development value (per unit)	**HK$114,100 to HK$190,600**	HK$119,600 to HK$199,800
		Estimated construction cost (per sq.m.)	**HK$4,600**	HK$4,800
		Developer's profit	**23%**	23%

The term and reversion approach

Under the term and reversion approach, fair value is estimated on the basis of capitalisation of existing rental income and reversionary market rental income potential.

The market rentals of the investment properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rents are assessed by reference to the rentals achieved in the investment properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the leasing and sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

The key inputs were the market rent and the market yield, which a significant increase/decrease in the market rent in isolation would result in a significant increase/decrease in the fair value of the investment properties and a significant increase/decrease in the market yield in isolation would result in a significant decrease/increase in the fair value of the investment properties.

The market approach

Under the market approach, fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristics of the investment properties, which included the location, size, shape, view, floor level, year of completion and others factors collectively, to arrive at the price per square metre.

The key input was the price per square metre, in which a significant increase/decrease in the price would result in a significant increase/decrease in the fair value of the investment properties.

14. Investment Properties (continued)

The residual approach

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as construction cost, contingency cost, finance cost and professional fees that will be expended to complete the development as well as the developer's profit to reflect the risks associated with the development of the investment property and the quality of the completed development.

The gross development value is arrived at by making reference to the sales transactions or asking price evidences of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

The key inputs were the gross development value, construction cost and developer's profit, which a significant increase/decrease in the development value in isolation would result in a significant increase/decrease in the fair value of the investment properties and a significant increase/decrease in the construction cost and the developer's profit in isolation would result in a significant decrease/increase in the fair value of the investment properties.

A combination of the market and depreciated replacement cost approaches

The warehouse and residential/non-residential properties were assessed by adopting a combination of the market and depreciated replacement cost approaches in assessing the land portions of the properties and the buildings and structures standing on the land. The sum of the two results represents the market value of the properties as a whole. In the valuation of the land portions, reference has been made to the standard land price in Shenzhen, Guangdong, the PRC. As the nature of the buildings and structures cannot be valued on the basis of market value; they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for properties in the absence of a known market based on comparable sales.

Market approach is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

A significant increase/decrease in the land value and estimated cost of construction would result in a significant increase/ decrease in the fair values of completed investment properties.

Income capitalisation method

Income capitalisation method is based on the capitalisation of the reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations.

The prevailing market rents adopted in the valuation were made reference to valuers' view of recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Capitalisation rate is estimated based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

15. Prepaid Land Lease Payments

The Group's interests in leasehold land are analysed as follows:

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	275,582	264,498
Additions	59,083	6,994
Amortisation recognised during the year *(note 6)*	(12,227)	(13,844)
Exchange realignment	(15,614)	17,934
Carrying amount at 31 December	306,824	275,582

As at 31 December 2018, land use right certificates of certain leasehold land with a carrying value of HK$83,659,000 (2017: HK$91,137,000) have not been issued. The Group is in the process of obtaining the certificates.

16. Goodwill

	2018 HK$'000	2017 HK$'000
Cost and net carrying amount at 1 January	303,605	301,150
Exchange realignment	(1,722)	2,455
Cost and net carrying amount at 31 December	301,883	303,605

Impairment testing of goodwill

The carrying amounts of goodwill acquired through business combinations have been allocated to the relevant cash-generating units of the corresponding business operations for impairment testing, which are summarised as follows:

	2018 HK$'000	2017 HK$'000
Water distribution operations	273,752	274,118
Sewage treatment operations	28,131	29,487
	301,883	303,605

Water distribution operations

The recoverable amount of each of the water distribution cash-generating units has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the remaining concession periods of 12 to 25 years (2017: 13 to 26 years). The discount rates applied to the cash flow projections range from 7% to 10% (2017: 7% to 10%).

The cash flow projections have been prepared based on the actual results of the respective water distribution cash-generating units for the years ended 31 December 2018 and 2017. Cash flows for each of the water distribution cash-generating units depend principally on the pricing and volume of water distributed. Revenue from the water supply to the HKSAR during the cash flow projection period is based on the latest Hong Kong Water Supply Agreement entered in 2017 where the annual water revenue receivable from the HKSAR for the years 2018, 2019 and 2020 are HK$4,792.59 million, HK$4,807.00 million and HK$4,821.41 million, respectively. No growth in the revenue from the water supply to the HKSAR is extrapolated beyond 2020 (no growth in the revenue was considered solely for the purposes of the impairment test to arrive at a conservative projection of cash flows and does not reflect the forecasted long-term industry growth or the Group's expectation of the business performance). Revenue for other projects is projected at growth rates of 4% to 6% per annum (2017: 4% to 6% per annum) over the projection periods. Operating expenses are expected to increase by 1% to 10% per annum (2017: 1% to 10% per annum) during the projection periods.

16. Goodwill (continued)

Sewage treatment operations

The recoverable amount of each of the sewage treatment cash-generating units has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the remaining concession periods of 13 to 25 years (2017: 14 to 26 years). The discount rates applied to the cash flow projections is 10% (2017: 10%). The cash flow projections have been prepared based on the actual historical results of the respective sewage treatment cash-generating units. Cash flows for each of the sewage treatment cash-generating units depend principally on the pricing and volume of the waste water treated. Revenue is projected with growth rates of 2% to 5% per annum (2017: 2% to 5% per annum) over the projection periods. Operating expenses are expected to increase by 3% to 7% per annum (2017: 3% to 7% per annum) during the projection periods.

Based on the results of the impairment test of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2018 (2017: Nil).

17. Investments in Associates

	2018 HK$'000	2017 HK$'000
Share of net assets	**3,655,344**	3,655,624
Goodwill on acquisition	**146,700**	149,403
	3,802,044	3,805,027
Less: Impairment	**(125,343)**	(125,343)
	3,676,701	3,679,684

The Group's receivable/payable balances from/to associates are disclosed in notes 23, 25 and 39(d) to the financial statements.

During the year ended 31 December 2017, the Group acquired a 49% equity interest in 汕頭市自來水總公司 (Shantou Guangdong Water Company Limited▲) ("Shantou Water Co") at a cash consideration of RMB1,638,753,000 (approximately HK$1,925,043,000). Shantou Water Co and its subsidiaries are principally engaged in water distribution and waterworks construction in Shantou.

In prior years, impairment of HK$125,343,000 was made as the carrying amount of the investment in an associate, which was engaged in the power supply operation, exceeded its recoverable amount and management considered that the whole amount was not recoverable.

Particulars of material associates are as follows:

Company	Registered and paid-up capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangdong Yudean Jinghai Power Generation Co., Ltd. ("Yudean Jinghai")	RMB2,919,272,000	Mainland China	25%	Power plant operation
Shantou Water Co	RMB2,949,849,600	Mainland China	49%	Water distribution and waterworks construction operation

Yudean Jinghai and Shantou Water Co, which are considered as material associates of the Group, engage in power supply operation and water distribution and waterworks construction operation, respectively, and are accounted for using the equity method.

17. Investments in Associates (continued)

The following table illustrates the summarised financial information of Yudean Jinghai, adjusted for any differences in accounting policies and fair value adjustments and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Current assets	1,373,165	1,514,665
Non-current assets, excluding goodwill	9,377,213	10,382,020
Goodwill on acquisition of the associate	17,570	17,570
Current liabilities	(3,024,853)	(3,169,375)
Non-current liabilities	(3,567,994)	(4,236,170)
Net assets	4,175,101	4,508,710
Net assets, excluding goodwill	4,157,531	4,491,140
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	25%	25%
Group's share of net assets of the associate, excluding goodwill	1,039,383	1,122,785
Goodwill on acquisition	17,570	17,570
Carrying amount of the investment	1,056,953	1,140,355
Dividend received	62,122	108,369
Revenue	5,716,188	5,505,898
Profit for the year	116,568	245,184
Other comprehensive income/(loss) for the year	(201,689)	300,156
Total comprehensive income/(loss) for the year	(85,121)	545,338

The following table illustrates the summarised financial information in respect of Shantou Water Co and its subsidiaries ("Shantou Water Group"), adjusted for any differences in accounting policies and fair value adjustments and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Current assets	2,201,459	2,113,167
Non-current assets, excluding goodwill	1,846,256	1,917,620
Goodwill on acquisition of the associate	92,370	95,073
Current liabilities	(92,870)	(61,169)
Non-current liabilities	(295,421)	(270,227)
Net assets	3,751,794	3,794,464
Net assets, excluding goodwill	3,659,424	3,699,391
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49%	49%
Group's share of net assets of the associate, excluding goodwill	1,776,527	1,796,111
Goodwill on acquisition	92,370	95,073
Carrying amount of the investment	1,868,897	1,891,184
Dividend received	1,727	–
Revenue	454,660	–
Profit for the year	95,920	–
Other comprehensive loss for the year	(132,363)	–
Total comprehensive loss for the year	(36,443)	–

17. Investments in Associates (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associates' profit for the year	**60,454**	40,257
Share of the associates' other comprehensive income/(loss)	**(19,337)**	16,867
Share of the associates' total comprehensive income	**41,117**	57,124
Aggregate carrying amount of the Group's investments in the associates	**750,851**	648,145

18. Service Concession Arrangements

(a) Operating concession rights

	Water distribution operations HK$'000 *(note (i))*	Road and bridge operation HK$'000 *(note (ii))*	Total HK$'000
At 1 January 2018:			
Cost	**24,770,153**	**3,165,760**	**27,935,913**
Accumulated amortisation and impairment	**(13,496,642)**	**(325,958)**	**(13,822,600)**
Net carrying amount	**11,273,511**	**2,839,802**	**14,113,313**
At 1 January 2018, net of accumulated amortisation and impairment	**11,273,511**	**2,839,802**	**14,113,313**
Additions	**126,492**	**303**	**126,795**
Amortisation during the year *(note 6)*	**(843,755)**	**(168,422)**	**(1,012,177)**
Exchange realignment	**(55,286)**	**(125,183)**	**(180,469)**
At 31 December 2018, net of accumulated amortisation and impairment	**10,500,962**	**2,546,500**	**13,047,462**
At 31 December 2018:			
Cost	**24,836,879**	**3,019,004**	**27,855,883**
Accumulated amortisation and impairment	**(14,335,917)**	**(472,504)**	**(14,808,421)**
Net carrying amount	**10,500,962**	**2,546,500**	**13,047,462**

18. Service Concession Arrangements (continued)

(a) Operating concession rights (continued)

	Water distribution operations HK$'000 *(note (i))*	Road and bridge operation HK$'000 *(note (ii))*	Total HK$'000
At 1 January 2017:			
Cost	23,998,145	2,957,267	26,955,412
Accumulated amortisation and impairment	(12,666,242)	(148,763)	(12,815,005)
Net carrying amount	11,331,903	2,808,504	14,140,407
At 1 January 2017, net of accumulated amortisation and impairment	11,331,903	2,808,504	14,140,407
Additions	262,896	640	263,536
Acquisition of subsidiaries *(note 34)*	444,710	–	444,710
Amortisation during the year *(note 6)*	(827,578)	(160,809)	(988,387)
Exchange realignment	61,580	191,467	253,047
At 31 December 2017, net of accumulated amortisation and impairment	11,273,511	2,839,802	14,113,313
At 31 December 2017:			
Cost	24,770,153	3,165,760	27,935,913
Accumulated amortisation and impairment	(13,496,642)	(325,958)	(13,822,600)
Net carrying amount	11,273,511	2,839,802	14,113,313

Notes:

(i) The operating concession rights of the Group's water distribution operations mainly arise from the operating concession of WaterCo, a subsidiary of GH Water Holdings, details of which are as follows:

Prior to the acquisition by the Group of an 81% interest in GH Water Holdings in 2000, WaterCo acquired the operating right from Guangdong Holdings to operate the water distribution business, which supplies natural water to the HKSAR, Shenzhen and Dongguan, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic metres of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to the HKSAR and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000 or such longer period as extended in accordance with the terms stipulated in a service concession agreement dated 18 August 2000 entered into between the Guangdong Provincial Government (the "GPG") and WaterCo (the "Concession Agreement"). Upon dissolution of WaterCo after the expiration of the operating period, WaterCo is required, at its cost and expense and without compensation, to return all of the assets related to the operating right to the GPG.

At 31 December 2018 and 2017, the Group held certain temporary land use right certificates for the existing water distribution operations issued by the Shenzhen and Dongguan Land Authorities in 2000. The procedures for the conversion from the temporary land use right certificates to the formal land use right certificates were in progress as at 31 December 2018. For the land related to the Phase IV Renovation Project on the water distribution operation facilities, the application for land use right certificates has been submitted and these land use right certificates were not yet issued by the relevant offices of the Land Authorities in the PRC as at 31 December 2018 and 2017.

At 31 December 2018 and 2017, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights of certain water distribution operation facilities, other than WaterCo, to which the Group's service concession arrangements relates.

Notwithstanding the above, the directors are of the opinion that the Group has obtained the beneficial titles to these land parcels as at 31 December 2018 and 2017 and the land use right certificates can be received.

18. Service Concession Arrangements (continued)

(a) Operating concession rights (continued)

Notes: (continued)

(ii) The operating concession rights of the Group's road and bridge operations mainly arise from the operating concession of Xinchangjiang, a subsidiary of Rosy Canton, details of which are as follows:

Prior to the acquisition by the Group of a 100% interest in Rosy Canton in 2015, Xinchangjiang was granted an operating right by 廣西壯族自治區交通廳 to operate a toll road namely, the Xingliu Expressway (興六高速公路) for a period of 30 years from 2003. Xingliu Expressway is located in Guangxi Province and runs from Xingye County, Yulin City to Liujing Town, Hengxian County in Nanning City. At the expiry of the operating right, Xinchangjiang is required, at its cost and expense and without compensation, to return all of the assets relating to the operating right of the Xingliu Expressway to 廣西壯族自治區交通廳.

(b) Receivables under service concession arrangements

	2018 HK$'000	2017 HK$'000
Receivables under service concession arrangements wholly attributable to sewage treatment operations	**1,464,719**	934,765
Portion classified as current assets	**(13,223)**	(12,445)
Non-current portion	**1,451,496**	922,320

Receivables under service concession arrangements were due mainly from the Grantors in respect of the Group's sewage treatment operations. The Group does not hold any collateral or other credit enhancements over these balances.

(c) Contract assets

As at 31 December 2018, contract assets which are presented as operating concession rights and receivables under service concession arrangements amounted to HK$40,651,000 (1 January 2018: HK$221,609,000) and HK$700,719,000 (1 January 2018: HK$401,838,000), respectively.

Contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from the Grantors during the construction period and receives service fees when relevant provision of water supply or sewage treatment are rendered. The receivables under service concession arrangement (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangements. Amounts billed will then be transferred to trade receivables (note 23). The increase in contract assets as at 31 December 2018 was the result of the increase in the ongoing service concession arrangements in the initial construction stage and more unbilled amount were noted. The Group's trading terms and credit policy with customers are disclosed in note 23 to the financial statements.

(d) The expected credit loss rate for the Group's contract assets and receivables under service concession arrangements is minimal. No impairment loss was recognised by the Group as at 31 December 2018 in respect of these assets.

The directors of the Company were of the opinion that no provision for impairment was necessary in respect of receivables under service concession arrangements as at 31 December 2017 as there have not been a significant change in the credit quality and the balances were considered fully recoverable.

19. Receivables Under A Cooperative Arrangement

Balance as at 31 December 2018 mainly represented an advance of RMB272,522,000 (equivalent to approximately HK$311,029,000) (2017: Nil) and accrued interest of RMB11,395,000 (equivalent to approximately HK$13,005,000) (2017: Nil) in respect of a public-private-partnership project for the development of certain public roads in Yinping Innovation Zone (the "Yinping PPP Project").

The advance and accrued interest income are unsecured, interest-bearing at 8% per annum and repayable in 10 annual installments from the acceptance of each public road. Further details of the Yinping PPP Project are set out in note 38(b) to the financial statements.

20. Properties Held for Sale Under Development and Completed Properties Held for Sale

The normal operating cycle of the Group's property development generally ranges from one to three years.

At the end of the reporting period, properties held for sale under development of HK$5,831,502,000 (2017: HK$5,748,595,000), which are expected to be completed within the normal operating cycle and classified as current assets, are expected to be recovered after twelve months from the end of the reporting period.

At the end of the reporting period, completed properties held for sale of HK$3,566,882,000 (2017: Nil) was pledged to a bank as securities for bank borrowings granted to a subsidiary of the Group (note 27).

21. Equity Investment Designated at Fair Value Through Other Comprehensive Income/ Financial Assets at Fair Value Through Profit or Loss/Other Financial Assets at Amortised Cost/Available-For-Sale Financial Assets

	Notes	**2018 HK$'000**	2017 HK$'000
Equity investment designated at fair value through other comprehensive income			
Non-current:			
Unlisted equity investment, at fair value	*(i)*	**10,191**	–
Financial assets at fair value through profit or loss			
Current:			
Unlisted wealth management products, at fair value	*(ii)*	**7,399,210**	–
Other financial assets at amortised cost			
Current:			
Unlisted wealth management products, at amortised cost	*(iii)*	**1,597,820**	–
Available-for-sale financial assets			
Non-current:			
Unlisted equity investment, at cost	*(i)*	**–**	5,555
Current:			
Unlisted wealth management products, at fair value	*(iv)*	**–**	8,093,040
		–	8,098,595

Notes:

(i) The Group designated its investment in 廣州市八達工程有限公司 (Guangzhou Bada Engineering Co Company Limited▲), a company incorporated in the PRC, at fair value through other comprehensive income (non-recycling) as the investment is held for strategic purpose. No dividends were received on this investment during the year (2017: Nil). The tax effect for the fair value change during the year amounted to HK$1,269,000 (2017: Nil).

(ii) Unlisted wealth management products were issued by banks in Mainland China and were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

(iii) Unlisted wealth management products were issued by banks in Mainland China and were classified as other financial assets at amortised cost as these non-equity investments are held to collect contractual cash flow and their contractual cash flows are solely payments of principal and interest.

(iv) During the year ended 31 December 2017, gains in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to HK$4,807,000, which is net of tax of HK$1,602,000, and gains of HK$12,072,000, which is net of tax of HK$4,024,000, were reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

22. Inventories

	2018 HK$'000	2017 HK$'000
Raw materials	**175,802**	166,288
Finished goods	**5,137**	6,453
	180,939	172,741

23. Receivables, Prepayments and Other Receivables

	Notes	2018 HK$'000	2017 HK$'000
Trade receivables, net of impairment	*(i)*	**616,140**	596,435
Other receivables, prepayments and deposits	*(ii)*	**635,799**	660,417
Due from fellow subsidiaries	*39(d)*	**4,209**	5,580
Due from associates	*39(d)*	**748**	12,559
		1,256,896	1,274,991
Less: Portion classified as non-current assets		**(137,905)**	(175,291)
Current portion		**1,118,991**	1,099,700

Except for trade receivables as detailed below, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes:

(i) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water distribution, sewage treatment and electricity supply businesses. The Group has a certain concentration of credit risk whereby 14% (2017: 16%) of the total trade receivables was due from one customer. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest bearing.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	**589,282**	515,375
3 months to 6 months	**2,299**	45,956
6 months to 1 year	**19,138**	29,435
More than 1 year	**11,021**	13,204
	621,740	603,970
Less: Loss allowance	**(5,600)**	(7,535)
	616,140	596,435

23. Receivables, Prepayments and Other Receivables (continued)

Notes: (continued)

(i) (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	7,535	5,138
Impairment losses recognised/(reversed), net *(note 6)*	(345)	1,840
Amount written off	(1,303)	–
Exchange realignment	(287)	557
At 31 December	5,600	7,535

Impairment under HKFRS 9 for the year ended 31 December 2018
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.01%	0.43%	4.71%	86.92%	0.90%
Gross carrying amount (HK$'000)	550,729	59,990	5,249	5,772	621,740
Expected credit losses (HK$'000)	80	256	247	5,017	5,600

Impairment under HKAS 39 for the year ended 31 December 2017
Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$7,535,000 with the same carrying amount before provision as at the end of the reporting period. The individually impaired trade receivables as at 31 December 2017 related to customers that were in default payments and the full amount of the receivables is not expected to be recoverable.

The ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	391,658
Less than 3 months past due	120,845
3 months to 6 months past due	45,691
6 months to 1 year past due	28,385
More than 1 year past due	9,856
	596,435

Receivables that were neither past due nor impaired related to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(ii) None of the assets in other receivables, prepayments and deposits is either past due or impaired. The financial assets included in the above balance relate to receivables for which there was no recent history of default.

24. Cash and Cash Equivalents, Pledged Bank Deposits and Restricted Bank Balances

	Notes	2018 HK$'000	2017 HK$'000
Cash and bank balances	*(i)*	**3,845,440**	2,832,769
Non-pledged time deposits with:			
Original maturity of more than three months when acquired *(note 35(c))*		**758,107**	1,045,461
Original maturity of less than three months when acquired		**3,041,574**	3,687,056
Cash and cash equivalents as stated in the consolidated statement of financial position as at 31 December *(note 35(c))*	*(ii)*	**7,645,121**	7,565,286
Pledged bank deposits with:			
Original maturity of less than 1 year	*(iii)*	**42,278**	68,242
		7,687,399	7,633,528
Restricted bank balances	*(iv)*	**641,314**	136,989
Cash and cash equivalents, pledged bank deposits and restricted bank balances#		**8,328,713**	7,770,517

Notes:

(i) As at 31 December 2018, included in the balance represented bank deposits of RMB29,998,000 (equivalent to HK$34,237,000) (2017: Nil) placed at a non-banking financial institution in the PRC, which is a fellow subsidiary of the Group (note 39(d)).

(ii) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(iii) Balance at 31 December 2018 represented bank deposits of HK$42,278,000 (2017: HK$44,316,000) pledged for an irrevocable guarantee issued in favour of a bank under a construction agreement and bank deposits of nil (2017: HK$23,926,000) pledged to secure performance obligations of certain service concession agreements.

(iv) Balance at 31 December 2018 mainly represented pre-sale proceeds from and funds in relation to relocated households of the Group's completed properties held for sale and properties held for sale under development placed at designated bank accounts under supervision pursuant to relevant regulations in the PRC amounting to approximately HK$603,964,000 (2017: HK$116,622,000).

 # At the end of the reporting period, these balances included an amount of HK$6,250,177,000 (2017: HK$6,198,149,000) which was denominated in Renminbi ("RMB"). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. Payables, Accruals and Other Liabilities, and Contract Liabilities

(a) *Payable, accruals and other liabilities*

	Notes	**2018 HK$'000**	2017 HK$'000
Trade payables	*(i)*	**776,698**	729,197
Accruals, other payables and other liabilities		**3,952,833**	4,470,817
Deferred revenue		**241,813**	247,453
Due to the immediate holding company	*39(d)*	**29,102**	48,827
Due to the ultimate holding company	*39(d)*	**3,092**	3,289
Due to fellow subsidiaries	*39(d)*	**548,860**	131,517
Due to an associate	*39(d)*	**45,312**	–
Loans from a fellow subsidiary	*39(d)*	**395,255**	421,720
		5,992,965	6,052,820
Less: Portion classified as non-current liabilities	28	**(937,138)**	(1,385,917)
Current portion		**5,055,827**	4,666,903

Notes:

(i) *An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the payment due date, is as follows:*

	2018 HK$'000	2017 HK$'000
Within 3 months	**769,335**	728,708
3 months to 6 months	**31**	385
6 months to 1 year	**7,332**	104
	776,698	729,197

The Group's payables, accruals and other liabilities are non-interest-bearing and are normally settled on 60-day terms.

(b) *Contract liabilities*

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Advances received from customers		
Water distribution, sewage treatment and construction services	**143,174**	158,927
Sale of properties	**1,106,110**	57,847
Property management service	**18,608**	15,914
Sale of goods	**346,996**	282,631
Sale of electricity	**6,260**	15,345
Loyalty points programme	**16,129**	18,735
Total contract liabilities	**1,637,277**	549,399

Notes:

(i) *Contract liabilities include advances received for the provision of water distribution, sewage treatment and construction services, property management service, and the sale of properties, goods and electricity, and a portion of the transaction price allocated to the loyalty points programme. The increase in contract liabilities in 2018 was mainly due to the increase in advances received from customers in relation to the pre-sale of properties at the end of the year.*

25. Payables, Accruals and Other Liabilities, and Contract Liabilities (continued)

(b) Contract liabilities (continued)

Notes: (continued)

(ii) The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Water distribution, sewage treatment and construction services	96,249
Sale of properties	12,991
Property management service	15,754
Sale of goods and loyalty points programme	34,382
Sale of electricity	15,191
	174,567

26. Balances With Non-Controlling Equity Holders of Subsidiaries

The balances with non-controlling equity holders of subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment or are repayable with one year.

The carrying amounts of the balances with non-controlling equity holders of subsidiaries approximate their fair values.

27. Bank and Other Borrowings

	2018			2017		
	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current						
Bank loans – unsecured	0.60% – 4.90%	2019	1,013,696	1.29% – 7.20%	2018	5,085,111
Bank loans – secured	3.80% – 5.23%	2019	470,215	–	–	–
Other loans – unsecured	2.33% – 3.84%	On demand	52,771	1.80% – 3.84%	2018	59,447
Other loans – unsecured	–	On demand	30,410	–	2018	31,876
			1,567,092			5,176,434
Non-current						
Bank loans – unsecured	1.39% – 4.90%	2020–2033	5,105,875	4.90%	2019–2020	11,963
Bank loans – secured	3.80% – 5.46%	2020–2023	2,041,786	–	–	–
Other loans – unsecured	1.80% – 6.67%	2021–2035	142,254	1.80% – 6.55%	2019–2024	140,723
			7,289,915			152,686
Total bank and other borrowings			8,857,007			5,329,120

27. Bank and Other Borrowings (continued)

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year/on demand	**1,483,911**	5,085,111
In the second year	**584,346**	5,981
In the third to fifth years, inclusive	**6,546,766**	5,982
Over five years	**16,549**	–
	8,631,572	5,097,074
Other loans repayable:		
Within one year/on demand	**83,181**	91,323
In the second year	**–**	7,083
In the third to fifth years, inclusive	**69,555**	84,089
Over five years	**72,699**	49,551
	225,435	232,046
Total bank and other borrowings	**8,857,007**	5,329,120
Less: Portion classified as current liabilities	**(1,567,092)**	(5,176,434)
Non-current portion	**7,289,915**	152,686

Notes:

(a) *As at 31 December 2018 and 2017, all bank and other borrowings were denominated in Hong Kong dollars except for bank and other loans of HK$2,800 million (2017: HK$264 million) were denominated in RMB.*

(b) *As at 31 December 2018, bank loans of HK$1,713,091,000 (2017: Nil) are secured by the pledge of certain of the Group's completed properties held for sale and completed investment properties amounting to HK$3,566,882,000 (2017: Nil) and HK$412,009,000 (2017: Nil), respectively.*

(c) *As at 31 December 2018, the secured bank loans as mentioned in (b) included a bank loan of an aggregate amount of HK$1,369,560,000 (2017: Nil) which is also secured by a pledge of 100% equity interest of a non-wholly-owned subsidiary.*

(d) *Pursuant to the relevant bank loan agreement, a bank borrowing of HK$798,910,000 (2017: Nil) is secured by a pledged bank deposit account. As at 31 December 2018, there was nil cash and bank deposit in this designated account (2017: Nil).*

28. Other Liabilities

	Notes	2018 HK$'000	2017 HK$'000
Advance	*(i)*	**354,600**	472,800
Deferred revenue		**227,149**	212,627
Deposits received		**167,864**	181,684
Other payable		**180,677**	104,264
Loans from a fellow subsidiary	*39(d)(iv)*	**6,848**	414,542
	25	**937,138**	1,385,917

Note:

(i) *In prior years, the Government of the HKSAR granted a loan facility with a principal amount of HK$2,364 million (the "Loan Facility") to the GPG for the purpose of the Phase IV Renovation Project. Pursuant to the Concession Agreement, the Loan Facility was utilised for the construction of the Phase IV Renovation Project. Upon the completion of the Phase IV Renovation Project during the year ended 31 December 2003, the Group acquired and recorded the assets of the Phase IV Renovation Project and assumed the repayment obligations of the Loan Facility from the GPG. The outstanding Loan Facility is settled through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK$118,200,000 for 20 years commencing from December 2003.*

As at 31 December 2018, the aggregate carrying amount of the advance amounted to HK$472,800,000 (2017: HK$591,000,000), in which HK$354,600,000 (2017: HK$472,800,000) and HK$118,200,000 (2017: HK$118,200,000) were grouped in non-current liabilities and current liabilities, respectively.

29. Deferred Tax

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

	2018							
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Temporary differences related to service concession arrangements HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Revaluation of property, plant and equipment HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	2,176,936	99,804	511,315	1,214,479	21,293	803,245	21,474	4,848,546
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	(143,424)	5,342	18,967	44,307	–	(48,693)	24,021	(99,480)
Deferred tax transferred to revaluation reserve	–	–	–	–	19,682	–	1,269	20,951
Acquisition of a subsidiary *(note 34)*	1,782,953	–	–	–	–	–	–	1,782,953
Exchange differences	(162,221)	(4,782)	(22,965)	(57,044)	(1,676)	(31,106)	(912)	(280,706)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2018	3,654,244	100,364	507,317	1,201,742	39,299	723,446	45,852	6,272,264

Deferred tax assets

	2018							
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Depreciation expense in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Customer loyalty programme HK$'000	Provisions and accruals HK$'000	Provision for LAT HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	(1,441)	(4,346)	–	(4,684)	(59,911)	(80,315)	(8,036)	(158,733)
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	53	1,254	7,042	453	7,888	(26,209)	(47,705)	(57,224)
Acquisition of a subsidiary *(note 34)*	–	–	(46,721)	–	(482)	–	–	(47,203)
Exchange differences	64	1,686	1,509	199	928	4,644	2,111	11,141
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2018	(1,324)	(1,406)	(38,170)	(4,032)	(51,577)	(101,880)	(53,630)	(252,019)

29. Deferred Tax (continued)

Deferred tax liabilities

	2017							
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Temporary differences related to service concession arrangements HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Revaluation of property, plant and equipment HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	293,903	90,879	477,071	1,046,734	16,794	576,888	11,591	2,513,860
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	(100,915)	2,461	2,875	85,574	–	179,585	8,745	178,325
Deferred tax transferred to revaluation reserve	–	–	–	–	3,321	–	–	3,321
Acquisitions of subsidiaries *(note 34)*	1,856,389	–	–	5,268	–	–	–	1,861,657
Exchange differences	127,559	6,464	31,369	76,903	1,178	46,772	1,138	291,383
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2017	2,176,936	99,804	511,315	1,214,479	21,293	803,245	21,474	4,848,546

Deferred tax assets

	2017						
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Depreciation expense in excess of related depreciation allowance HK$'000	Customer loyalty programme HK$'000	Provisions and accruals HK$'000	Provision for LAT HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	(1,397)	(4,140)	(6,034)	(42,207)	–	(7,729)	(61,507)
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	52	–	1,709	(14,381)	(3,617)	489	(15,748)
Acquisitions of subsidiaries *(note 34)*	–	–	–	–	(72,287)	–	(72,287)
Exchange differences	(96)	(206)	(359)	(3,323)	(4,411)	(796)	(9,191)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2017	(1,441)	(4,346)	(4,684)	(59,911)	(80,315)	(8,036)	(158,733)

29. Deferred Tax (continued)

The Group has unrecognised tax losses arising in Hong Kong of approximately HK$234,992,000 (2017: HK$280,102,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unrecognised tax losses arising in Mainland China of HK$810,893,000 (2017: HK$1,009,124,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the Group.

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 Mainland China. 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 China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and associates established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, except for withholding tax provided for under deferred tax liabilities, the aggregate amount of temporary differences associated with unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$880,783,000 (2017: HK$367,260,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. Share Capital

Shares

	2018 HK$'000	2017 HK$'000
Issued and fully paid: 6,537,821,440 ordinary shares	**8,966,177**	8,966,177

A summary of movements of the Company's share capital is as follows:

	Notes	Number of ordinary shares in issue	Share capital HK$'000
At 1 January 2017		6,264,931,421	5,789,737
Issue of new shares	*(i)*	272,890,019	3,176,440
At 31 December 2017 and 1 January 2018 and 31 December 2018		**6,537,821,440**	**8,966,177**

Notes:

(i) During the year ended 31 December 2017, 272,890,019 shares (the "Consideration Share(s)") were issued to GDH Limited, the immediate holding company of the Company, as part of the consideration for acquisition of an approximately 73.82% of the issued share capital of GD Land, an entity listed on The Stock Exchange of Hong Kong Limited, at a price of HK$10.39 per Consideration Share pursuant to the sale and purchase agreement dated 19 January 2017. Since the quoted closing price of one Consideration Share was HK$11.64 upon completion of the acquisition on 18 April 2017, the issued share capital of the Company was increased by approximately HK$3,176,440,000. Further details are set out in note 34(B)(a) to the financial statements.

31. Share Option Scheme

On 24 October 2008, the Company adopted a new share option scheme (the "2008 Scheme").The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company may approve from time to time. Eligible participants of the 2008 Scheme include the employees, officers or directors of a member of the Group ("Eligible Person"). The 2008 Scheme unless otherwise terminated or amended, will remain in force for 10 years from 24 October 2008. The 2008 Scheme expired on 23 October 2018.

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which have lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the ordinary shares of the Company in issue as at the date of the adoption of the 2008 Scheme.

The total number of ordinary shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible participant (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the ordinary shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

31. Share Option Scheme (continued)

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, for any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the ordinary shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the ordinary shares in issue; and (ii) having an aggregate value (based on the closing price of the ordinary shares at the date of grant) in excess of HK$5,000,000, such grant of options by the board of directors must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the board of directors of the Company, but not exceeding 14 days inclusive of, and from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an Eligible Person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the directors of the Company to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event not later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the board of directors of the Company at its absolute discretion on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the board of directors of the Company and shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the Company's ordinary shares based on the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

No share options granted under the 2008 Scheme were exercised during the year (2017: Nil).

At 31 December 2018, there are nil (2017: 8,966,030) share options outstanding under the 2008 Scheme, which represented nil% (2017: approximately 0.14%) of the ordinary shares in issue at that date. The exercise in full of the outstanding share options in 2017, under the then capital structure of the Company, would have resulted in the issue of 8,966,030 additional ordinary shares and the increase in share capital of approximately HK$55,589,000 (before issue expenses).

Movements in share options under the Company's 2008 Scheme during the year are as follows:

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**6.20**	**8,966,030**	6.20	10,432,560
Lapsed/forfeited during the year #	**6.20**	**(8,966,030)**	6.20	(1,466,530)
At 31 December	**–**	**–**	6.20	8,966,030

During the year ended 31 December 2018, all outstanding share options (2017: share options held by Mr. Wu Jianguo, a non-executive director of the Company and certain employees) were lapsed in accordance with the rules of the 2008 Scheme. 8,966,030 (2017: 1,466,530) share options were lapsed. An amount of HK$15,243,000 (2017: HK$877,000) was transferred from the share option reserve to retained profits.

31. Share Option Scheme (continued)

The exercise price and exercise period of the share options outstanding as at 31 December 2017 were as follows:

2017

Number of options	Exercise price* HK$ per share	Exercise period (dd.mm.yyyy)
570,830	6.20	22-01-2016 to 21-07-2018
2,798,400	6.20	22-01-2017 to 21-07-2018
5,596,800	6.20	22-01-2018 to 21-07-2018
8,966,030		

* *The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair value of the share options granted during the year ended 31 December 2013 was HK$67,034,400. The Group recognised a share option expense of HK$109,000 during the year ended 31 December 2018 (2017: HK$693,000).

The fair value of equity-settled share options granted during the year ended 31 December 2013 was estimated at the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	2013
Exercise price (HK$)	6.20
Dividend yield (%)	2.9
Expected volatility (%)	40
Historical volatility (%)	40
Risk-free interest rate (%)	0.494
Expected life of share options (years)	5.5

32. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(i) The special reserve (the "Special Reserve") was set up as one of the undertakings (the "Undertaking") given to the High Court of the HKSAR by the Company in its capital reduction application in 2003, on terms that for so long as there shall remain outstanding any debt of, or claim against the Company, which would be admissible to proof in a notional winding-up of the Company when the Undertaking became effective on 24 December 2003 (the "Effective Date") and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to the Special Reserve: (a) any amount arising by reason of a release of any provision taken into account in establishing the accumulated losses of the Company as at 30 June 2003; or (b) any amount received by the Company as profit by way of distribution from a corporation which was a subsidiary of the Company at the Effective Date which is made by such subsidiary out of the profit available for distribution prior to the Effective Date or any dividend paid to the Company in respect of any liquidation of a subsidiary commencing prior to that date.

During the year ended 31 December 2017, the release of provision as determined above amounted to HK$25,934,000; and no profit was distributed from the Company's subsidiary as determined above. As a result, a transfer from retained profits to the Special Reserve of the Group of HK$25,934,000 was recorded.

32. Reserves (continued)

(i) (continued)

The Special Reserve shall not be treated as realised profits of the Company and shall, for so long as the Company shall remain a limited company, be treated as an undistributable reserve of the Company for the purpose of the Hong Kong Companies Ordinance. Further, the amount standing to the credit of the Special Reserve may be reduced by an amount equal to any increase, after the Effective Date, in the paid-up share capital account of the Company which results from an issue of shares (other than for the purposes of any redemption or purchase by the Company of its own shares) for cash or other consideration or by way of the capitalisation of distributable profits or reserves. The Company shall be at liberty to transfer the amount so reduced to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2017, the Company issued 272,890,019 new shares which has resulted in an increase in the paid-up share capital in the amount of approximately HK$3,176,440,000 (before any share issue expenses). In effecting the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, the amount transferred from the Special Reserve is kept to be an amount not exceeding the balance of the Special Reserve before such transfer. As the increase in the paid-up share capital exceeds the amount standing to the credit of the Special Reserve, the entire amount of HK$106,786,000 standing to the credit of the Special Reserve has been transferred to retained profits of the Company.

The amount credited to the Special Reserve shall not at any time exceed HK$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital of the Company which results from an issue of shares as referred to above. The Limit may also be reduced by the amount of any non-permanent loss of the Company as at 30 June 2003 which subsequently turns into a permanent loss. During the year ended 31 December 2017, no non-permanent loss was turned into a permanent loss of the Group.

In the event that the amount standing to the credit of the Special Reserve at any time exceeds the Limit, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution. All profits and write-backs of provisions made by the Company between 1 July 2003 and the Effective Date are subject to an undertaking in similar terms.

During the year ended 31 December 2017, the Limit of the Group's Special Reserve was reduced by (i) an increase in paid-up share capital of approximately HK$3,176,440,000 due to issue of the Company's ordinary shares; and (ii) no non-permanent loss was turned into a permanent loss of the Group. As the increase in the paid-up share capital exceeds the Limit, the Limit has been reduced to zero.

The Limit, as adjusted, was Nil and the amount standing to the credit of the Group's Special Reserve was Nil as at 31 December 2017. The Undertaking ceased to have the effect as the Limit and the Special Reserve were reduced to Nil as at 31 December 2017 and no further amount can or should be credited to the Special Reserve.

(ii) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based arrangements in note 2.4 to the financial statements. The entire amount has been transferred to retained profits as all the share options were lapsed during the year ended 31 December 2018.

(iii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established/registered in Mainland China has been transferred to the expansion fund reserve which is restricted as to use.

(iv) The capital reserve mainly represents the capital reserve arising from group reorganisations in prior years.

(v) The defined benefit plan reserve represents remeasurement of gains and losses arising from the defined benefit plan of an associate, comprising actuarial gains and losses and the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability.

33. Partly-Owned Subsidiaries With Material Non-Controlling Interests

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by GD Teem's non-controlling interests	23.87%	23.87%

	2018 HK$'000	2017 HK$'000
Profit for the year allocated to GD Teem's non-controlling interests	205,496	106,640
Accumulated balances of GD Teem's non-controlling interests at the reporting date	4,964,180	4,981,907

The following tables illustrate the summarised financial information of GD Teem. The amounts disclosed are before any inter-company eliminations:

	2018 HK$'000	2017 HK$'000
Revenue	2,116,999	2,033,017
Changes in fair value of investment properties	80,073	(72,485)
Total expenses, net	(1,173,416)	(1,149,899)
Profit for the year	1,023,656	810,633
Total comprehensive income for the year	230,100	1,887,399
Current assets	9,730,245	8,611,571
Non-current assets	10,888,084	11,345,988
Current liabilities	(2,698,088)	(1,822,667)
Non-current liabilities	(1,663,684)	(2,108,436)
Net cash flows from operating activities	141,420	460,425
Net cash flows used in investing activities	(58,986)	(192,112)
Net cash flows used in financing activities	(8,852)	(432,925)
Effect of foreign exchange rate changes, net	(9,746)	22,026
Net increase/(decrease) in cash and cash equivalents	63,836	(142,586)

34. Business Combinations

(A) Year ended 31 December 2018

On 11 July 2018, the Group acquired a 100% equity interest in 廣東粵海房地產開發有限公司 (Guangdong Yuehai Property Development Co., Ltd) ("Yuehai Property Co") from 廣東粵港投資開發有限公司 (Guangdong Yuegang Investment Development Co., Ltd.▲) and 廣東粵港投資置業有限公司 (Guangdong Yuegang Investment Property Co., Ltd.▲), fellow subsidiaries of the Company and connected persons of the Company under the Listing Rules, at a cash consideration of RMB1,172,550,000 (equivalent to approximately HK$1,390,761,000) (the "Yuehai Acquisition"). Yuehai Property Co is principally engaged in property development in the PRC. Pursuant to the sale and purchase agreement, the Group also procured Yuehai Property Co to repay outstanding loans together with accrued interest up and including 31 March 2018 with an aggregate amount of RMB842,139,000 (equivalent to approximately HK$998,861,000).

The total amount for the transaction to be paid by the Group amounted to RMB2,014,689,000 (equivalent to approximately HK$2,389,622,000).

The Yuehai Acquisition constituted a connected transaction under the Listing Rules. Further details of the acquisition are set out in the circular of GD Land dated 18 May 2018.

The directors of the Company are of the opinion that the Yuehai Acquisition was made as part of the Group' strategy to expand its property investment and development segment in geographical areas. Further details of the transaction are set out in note 39(b)(iii) to the financial statements.

34. Business Combinations (continued)

(A) Year ended 31 December 2018 (continued)

The fair values of the identifiable assets and liabilities of the Yuehai Property Co acquired as at the date of acquisition are set out as follows:

	HK$'000
Property, plant and equipment	4,636
Investment properties	483,929
Deferred tax assets	47,203
Properties held for sale under development	4,974,503
Completed properties held for sale	68,794
Due from fellow subsidiaries	21,784
Cash and cash equivalents	29,167
Due to the ultimate holding company and fellow subsidiaries	(534,789)
Loans from the ultimate holding company and fellow subsidiaries	(940,945)
Bank borrowings	(459,021)
Deferred tax liabilities	(1,782,953)
Others	(224,810)
Total identifiable net assets at fair values acquired	1,687,498
Settlement of outstanding loans due to the ultimate holding company and fellow subsidiaries, together with accrued interest up to 31 March 2018	998,861
Gain on bargain purchase recognised in the consolidated statement of profit or loss	(296,737)
Satisfied by cash	2,389,622

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible. The gain on bargain purchase was attributable to the Group's bargaining power and ability in negotiating the agreed terms of the transaction with the vendors.

The properties held for sale under development was subsequently completed and transferred to completed properties held for sale as of 31 December 2018.

The Group incurred transaction costs of HK$5,767,000 in connection with the acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the Yuehai Acquisition was as follows:

	HK$'000
Cash consideration	(2,389,622)
Cash and cash equivalents acquired	29,167
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,360,455)
Transaction costs for the acquisitions included in cash flows from operating activities	(5,767)
	(2,366,222)

Since the acquisition, the Yuehai Acquisition contributed revenue of HK$202,884,000 and profit of HK$24,848,000 to the Group for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$13,418,276,000 and HK$5,561,320,000, respectively.

34. Business Combinations (continued)

(B) Year ended 31 December 2017

(a) On 19 January 2017, the Company entered into a sale and purchase agreement with GDH Limited, pursuant to which the Company conditionally agreed to acquire an approximately 73.82% of the issued share capital of GD Land from GDH Limited (the "GD Land Acquisition"). According to the agreement, the consideration of the GD Land Acquisition was to be settled as to (i) RMB839,500,000 in cash and (ii) issuance and allotment of 272,890,019 Consideration Shares at a price of HK$10.39 per Consideration Share.

The GD Land Acquisition constituted a disclosable and connected transaction under the Listing Rules. Further details of the acquisition are set out in the circular of the Company dated 24 February 2017. The acquisition was completed on 18 April 2017. On the same date, the acquisition consideration was satisfied (i) by cash of RMB839,500,000 (equivalent to approximately HK$945,847,000) and (ii) issuance and allotment of 272,890,019 Consideration Shares. Since the quoted closing price of one Consideration Share as at 18 April 2017 was HK$11.64, the Consideration Shares amounted to approximately HK$3,176,440,000. As such, total consideration for the GD Land Acquisition amounted to approximately HK$4,122,287,000. Further details of the transaction are set out in note 39(b)(iv) to the financial statements.

GD Land holds a number of subsidiaries (collectively, the "GD Land Group") which engage in property development and investment. The directors of the Company were of the opinion that the GD Land Acquisition was made as part of the Group's strategy to expand its property investment and development segment in geographical areas.

The Group had elected to measure the non-controlling interests in the GD Land Group at the non-controlling interests' proportionate share of the entity's identifiable net assets.

The fair values of the identifiable assets and liabilities of the GD Land Group acquired as at the date of acquisition were set out as follows:

	HK$'000
Property, plant and equipment	77,481
Investment properties	3,475,078
Deferred tax assets	72,287
Properties held for sale under development	3,676,741
Completed properties held for sale	508,795
Trade receivables	8
Receivables, prepayments and other receivables	17,403
Available-for-sale financial assets	1,232,758
Cash and cash equivalents	1,168,843
Restricted bank balances	338,725
Trade payables	(927,176)
Payables, accruals and other liabilities	(72,511)
Tax payable	(341,607)
Due to non-controlling equity holders of a subsidiary	(28,223)
Deferred tax liabilities	(1,819,898)
Total identifiable net assets at fair values	7,378,704
Non-controlling interests	(151,935)
	7,226,769
Percentage of equity interest acquired	73.82%
	5,334,801
Gain on bargain purchase recognised in the consolidated statement of profit or loss	(1,212,514)
	4,122,287
Satisfied by:	
Cash consideration	945,847
Issuance of Consideration Shares	3,176,440
	4,122,287

34. Business Combinations (continued)

(B) Year ended 31 December 2017 (continued)

(a) (continued)

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible. The gain on bargain purchase was attributable to the Group's bargaining power and ability in negotiating the agreed terms of the transaction with the vendor.

The Group incurred transaction costs of HK$12,497,000 in connection with the acquisition. The transaction costs had been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the GD Land Acquisition was as follows:

	HK$'000
Cash consideration	(945,847)
Cash and cash equivalents acquired	1,168,843
Net inflow of cash and cash equivalents included in cash flows from investing activities	222,996
Transaction costs for the acquisitions included in cash flows from operating activities	(12,497)
	210,499

Since the acquisition, the GD Land Acquisition contributed revenue of HK$159,231,000 and loss of HK$69,000 to the Group for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$12,196,301,000 and HK$6,010,609,000, respectively.

(b) During the year ended 31 December 2017, the Group acquired a number of subsidiaries and business operations which are principally engaged in water distribution business in Mainland China. The acquisitions were made as part of the Group's strategy to expand its market share in the water resources segment in the PRC. Details of these acquisitions are as follows:

(i) In February 2017, the Group set up a company, Fengshun Water Co with an independent third party, in which the Group has a 70% equity interest. Assets and liabilities of a water distribution operation in Fengshun city, the PRC, were acquired by Fengshun Water Co from its non-controlling equity holder. Fengshun Water Co also acquired a 100% equity interest of a company which engages in hot spring water supply in Fengshun city, the PRC, from its non-controlling equity holder. These two acquisitions are referred to as the "Fengshun Acquisition". The aggregate consideration for the Fengshun Acquisition amounted to RMB75,250,000 (equivalent to HK$84,950,000) in cash. The directors of the Company are of the opinion that these transactions constituted a business combination as defined in HKFRS 3 (Revised). Fengshun Water Co is principally engaged in the water distribution operations in the PRC;

(ii) In June 2017, the Group acquired a 63.07% equity interest in Xuyi Water Co from independent third parties at a cash consideration of approximately RMB119,833,000 (equivalent to approximately HK$136,059,000). Xuyi Water Co is principally engaged in the water distribution operations in the PRC; and

(iii) In June 2017, the Group acquired a water distribution operation in Zhaoqing, the PRC, from an independent third party at a cash consideration of RMB42,500,000 (equivalent to approximately HK$48,089,000 (the "Zhaoqing Acquisition").

The Group had elected to measure the non-controlling interests in Fengshun Water Co and Xuyi Water Co at the non-controlling interests' proportionate share of these entities' identifiable net assets.

34. Business Combinations (continued)

(B) Year ended 31 December 2017 (continued)

(b) (continued)

The fair values of the identifiable assets and liabilities acquired as at the respective date of acquisitions were set out as follows:

	HK$'000
Property, plant and equipment	49,425
Operating concession rights	444,710
Receivables, prepayment and other receivables	6,509
Inventories	3,291
Cash and cash equivalents	40,676
Payables, accruals and other liabilities	(60,299)
Due to non-controlling equity holders of subsidiaries	(5,307)
Tax payable	(10,686)
Bank and other borrowings	(41,387)
Deferred tax liabilities	(41,759)
Total identifiable net assets at fair values	385,173
Non-controlling interests	(116,075)
	269,098
Satisfied by:	
Cash consideration	269,098

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible.

The Group incurred transaction costs of HK$1,448,000 in connection with the acquisitions. The transaction costs had been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisitions was as follows:

	HK$'000
Cash consideration	(269,098)
Cash and cash equivalents acquired	40,676
Acquisition consideration payable	14,336
Net outflow of cash and cash equivalents included in cash flows from investing activities	(214,086)
Transaction costs for the acquisitions included in cash flows from operating activities	(1,448)
	(215,534)

Since the acquisitions, the newly acquired businesses contributed revenue of HK$40,194,000 and profit of HK$2,942,000 to the Group for the year ended 31 December 2017.

It was impractical to provide the information as if the above combinations had taken place at the beginning of the period, since the Group was unable to obtain relevant financial information to quantify the operation results of the particular assets and liabilities acquired before the acquisitions.

35. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

(i) During the year, the Group settled an amount of HK$118,200,000 (2017: HK$118,200,000) in relation to the Loan Facility by deducting it against the water revenue receivable from Government of the HKSAR. Details of the Loan Facility are set out in note 28 to the financial statements.

(ii) During the year, an amount due from non-controlling equity holders of subsidiaries of HK$22,001,000 (2017: Nil) was settled by distribution of reserves.

(iii) During the year, a non-controlling equity holder of the Group contributed paid-up capital of HK$113,785,000 (2017: nil) by way of assets injection. The amount of HK$113,785,000 was included in receivables under service concession arrangements as at 31 December 2018.

(iv) As at 31 December 2018, the Group had payables for property, plant and equipment of HK$288,677,000 (2017: HK$473,417,000) and for investment properties of HK$455,667,000 (2017: HK$539,921,000) which were included in payables, accruals and other liabilities.

(v) As at 31 December 2018, the Group had dividend payables to non-controlling equity holders of the Group of HK$78,155,000 (2017: HK$131,461,000), of which HK$42,708,000 (2017: HK$92,508,000) was included in payables, accruals and other liabilities and HK$35,447,000 (2017: HK$38,953,000) was included in amounts due to non-controlling equity holders of subsidiaries.

(b) Changes in liabilities arising from financing activities

	Dividend payables to shareholders HK$'000	Bank and other borrowings HK$'000	Loans from a fellow subsidiary HK$'000	Amounts due to the ultimate holding company and fellow subsidiaries HK$'000
At 1 January 2017	–	5,427,818	401,013	–
Changes from financing cash flows	(2,909,330)	(157,041)	(7,152)	–
Dividends	2,909,330	–	–	–
Increase arising from acquisitions of subsidiaries *(note 34)*	–	41,387	–	–
Foreign exchange movement	–	16,956	27,859	–
At 31 December 2017 and 1 January 2018	**–**	**5,329,120**	**421,720**	**–**
Changes from financing cash flows	**(3,268,910)**	**3,177,691**	**(7,343)**	**(22,357)**
Dividends	**3,268,910**	**–**	**–**	**–**
Increase arising from acquisition of a subsidiary *(note 34)*	**–**	**459,021**	**–**	**476,873**
Foreign exchange movement	**–**	**(108,825)**	**(19,122)**	**(18,541)**
At 31 December 2018	**–**	**8,857,007**	**395,255**	**435,975**

(c) Cash and cash equivalents

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents as stated in the consolidated statement of financial position as at 31 December *(note 24)*	**7,645,121**	7,565,286
Non-pledged time deposits with original maturity of more than three months when acquired *(note 24)*	**(758,107)**	(1,045,461)
Cash and cash equivalents as stated in the consolidated statement of cash flows as at 31 December	**6,887,014**	6,519,825

36. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a)

	2018 HK$'000	2017 HK$'000
The Group's proportional share of guarantees given to a bank in connection with facilities utilised by an associate	**55,924**	58,619

As at 31 December 2018, the banking facilities granted to an associate subject to guarantees given to a bank by the Group and the other equity holders of the associate were in accordance with the equity holding ratio of each party. The facilities granted to the associate by bank was utilised to the extent of approximately HK$114,130,000 (2017: HK$119,630,000).

(b) As at 31 December 2018, the Group provided guarantees to certain banks in respect of mortgages granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties held for sale. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the relevant outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of the real estate ownership certificates. As at 31 December 2018, the Group's outstanding guarantees amounted to HK$370,276,000 (2017: HK$782,654,000) for these guarantees.

37. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from four months to nineteen years (2017: three months to nineteen years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**892,993**	965,109
In the second to fifth years, inclusive	**1,120,474**	1,308,429
After five years	**91,005**	125,880
	2,104,472	2,399,418

37. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain leasehold properties under operating lease arrangements. Leases for properties are negotiated for terms of three months to twenty years (2017: six months to twenty years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**93,966**	100,389
In the second to fifth years, inclusive	**57,259**	11,984
After five years	**205,503**	620
	356,728	112,993

In addition to the operating lease arrangements disclosed above, the Group leases certain leasehold properties for the department store operations. The rental charge of HK$105,806,000 (2017: HK$102,151,000) was calculated with reference to the revenue generated by the Group.

38. Commitments

(a) In addition to the operating lease commitments detailed in note 37(b) above and elsewhere in these financial statements, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Capital commitments in respect of property, plant and equipment, investment properties and intangible assets:		
Contracted for	**2,288,481**	2,968,413
Capital commitments in respect of capital contribution payable to associates:		
Contracted for	**139,583**	34,482

(b) On 8 June 2016, the Company entered into a cooperation agreement with 東莞市謝崗鎮人民政府 in respect of a public-private-partnership project (the "Yinping PPP Project") for the development of certain public roads which are not toll roads (the "Project Roads") in 銀瓶創新區 (Yinping Innovation Zone) in Dongguan, Guangdong, the PRC.

The Group shall be responsible for, inter alia, the provision of funding for the development of the Project Roads with the development costs not exceeding RMB4.754 billion (equivalent to approximately HK$5.426 billion), and project management and maintenance of the Project Roads. At the end of the reporting period, an amount of RMB272,522,000 (equivalent to approximately HK$311,029,000) (31 December 2017: Nil) has been paid in relation to the Yinping PPP Project.

Further details of the Yinping PPP Project are set out in the Company's announcement dated 8 June 2016.

(c) On 8 June 2018, the Group entered into an agreement to acquire 30% of equity interest of a subsidiary from the non-controlling equity holder of that subsidiary at a cash consideration of RMB81,000,000 (equivalent to approximately HK$92,445,000). At the end of the reporting period, the Group had a commitment of RMB40,500,000 (equivalent to approximately HK$46,223,000) in respect of the transaction.

39. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

(a) Transactions with related parties

	Notes	2018 HK$'000	2017 HK$'000
Hotel management fees received from fellow subsidiaries*	*(i)*	**(5,094)**	(5,267)
Rental income received from Guangdong Holdings, GDH Limited and certain subsidiaries of Guangdong Holdings*	*(ii)*	**(26,482)**	(26,125)
Water distribution income received from a fellow subsidiary*	*(iii)*	**(37,148)**	(35,321)
Dividends paid and payable to GDH Limited and certain subsidiaries of GDH Limited by GH Water Holdings	*(iv)*	**46,254**	169,598
Dividends paid and payable to GDH Limited and certain of its subsidiaries by the Company	*(iv)*	**1,846,727**	1,643,587
Dividends paid to Guangdong Holdings by WaterCo	*(iv)*	**34,451**	–
Interest expense charged by Guangdong Holdings	*(v)*	**749**	–
Interest expense charged by fellow subsidiaries	*(vi)*	**20,940**	18,828
Sale of electricity to a fellow subsidiary*	*(vii)*	**(28,697)**	–
Consultancy service fee paid to a fellow subsidiary	*(viii)*	**6,704**	6,530

Notes:

(i) The hotel management fees were charged in accordance with the terms of agreements entered into between the Group and the respective fellow subsidiaries.

(ii) The Group received rental income and reimbursement of other expenses of HK$29,627,000 (2017: HK$29,117,000) in accordance with the terms of respective tenancy agreements with these related parties in which rental income was HK$26,482,000 (2017: HK$26,125,000) for year ended 31 December 2018.

(iii) Income on the supply of untreated water was charged in accordance with the terms of an agreement entered into between the Group and a fellow subsidiary.

(iv) The dividends paid and payable were made pursuant to the dividend rates proposed and declared at the respective boards of directors and shareholders' meetings.

(v) The interest expenses were charged at effective interest rate from 4.9% to 5.0% (2017: Nil).

(vi) The interest expenses were charged at effective interest rate of 94.0% to 103.5% (2017: 94% to 95%) of the agreed RMB benchmark lending rate per annum announced by the People's Bank of China.

(vii) The Group received income from the sale of electricity in accordance with the terms of the agreement of HK$28,697,000 which is net of tax of HK$4,660,000 for the year ended 31 December 2018 (2017: Nil).

(viii) The consultancy service fee was charged in accordance with the terms of an agreement entered into between the Group and a fellow subsidiary.

** These related party transactions also constitute continuing connected transactions as defined in Rules 14A.31 and 14A.76(2) of the Listing Rules.*

39. Related Party Transactions (continued)

(b) Other transactions with related parties

(i) The Group has guaranteed banking facilities granted to an associate amounting to HK$55,924,000 (2017: HK$58,619,000) as at the end of the reporting period. As at 31 December 2018, the banking facilities granted to an associate subject to guarantees given to a bank by the Group and the other equity holders of that associate were in accordance with the equity holding ratio of each party. The facilities granted to the associate by bank was utilised to the extent of approximately HK$114,130,000 (2017: HK$119,630,000).

(ii) On 1 February 2018, the Company, 廣東粵海水務股份有限公司 (Guangdong Yue Hai Water Holdings Limited▲) ("Guangdong Water Co"), an indirect wholly-owned subsidiary of Guangdong Holdings, and China First Metallurgical Group Co. Ltd., an independent third party, successfully bid for the water resources project in Yangjiang, Guangdong Province (the "Project"). The Company will make capital contribution of RMB131 million (equivalent to approximately HK$156 million) to a joint venture company to be set up for the Project. The transaction also constituted a connected transaction as defined in Chapter 14A of the Listing Rules. Further details are set out in the announcement of the Company dated 1 February 2018.

(iii) On 11 July 2018, GD Land acquired a 100% equity interest in 廣東粵海房地產開發有限公司 (Guangdong Yuehai Property Development Co., Ltd.▲) from 廣東粵港投資開發有限公司 (Guangdong Yuegang Investment Development Co., Ltd.▲) and 廣東粵港投資置業有限公司 (Guangdong Yuegang Investment Property Co., Ltd.▲) and procured to settle the outstanding loans, together with accrued interest up to 31 March 2018 due to the ultimate holding company and its subsidiaries at an aggregate cash consideration of RMB1,172,550,000 (equivalent to approximately HK$1,390,761,000). The vendors are fellow subsidiaries of the Company and connected persons of the Company under the Listing Rules. The consideration was determined with reference to a valuation performed by independent professional valuers and a discount agreed by both parties. The transaction also constituted a connected transaction of the Company as defined in Chapter 14A of the Listing Rules. Further details are set out in the joint announcement of the Company and GD Land dated 27 April 2018 and the circular of GD Land dated 18 May 2018.

(iv) On 18 April 2017, the Company acquired approximately 73.82% issued capital interest in GD Land from GDH Limited. The acquisition consideration was satisfied by cash of RMB839,500,000 (equivalent to approximately HK$945,847,000) and issue and allotment of 272,890,019 Consideration Shares. The consideration was determined with reference to a valuation performed by independent professional valuers and a discount agreed by both parties. The transaction also constituted a discloseable and connected transaction as defined in Chapter 14 and Chapter 14A of the Listing Rules, respectively. Further details are set out in the circular of the Company dated 24 February 2017.

(v) On 7 July 2017, Guangdong Water Group (H.K.) Limited ("Water Group HK"), a wholly-owned subsidiary of the Company, entered into an agreement with Guangdong Water Co and 汕頭市城市建設開發總公司 (Shantou City Construction Development Corporation▲) ("Shantou Construction Development"), an independent third party, pursuant to which Water Group HK and Guangdong Water Co have agreed to make capital contribution of RMB1,639 million (equivalent to approximately HK$1,925 million) and RMB67 million (equivalent to approximately HK$79 million) to Shantou Water Co, respectively, after its restructuring into a limited liability company.

Upon completion of the abovementioned capital contribution on 30 November 2017, Water Group HK, Guangdong Water Co and Shantou Construction Development hold 49%, 2% and 49% equity interest in Shantou Water Co, respectively. The capital injection also constituted a connected transaction as defined in Chapter 14A of the Listing Rules. Further details of the transaction are set out in the announcement of the Company dated 7 July 2017.

39. Related Party Transactions (continued)

(c) Commitments with related parties

The Group entered into several tenancy agreements, as lessor, with Guangdong Holdings, GDH Limited and certain fellow subsidiaries of the Company (collectively, the "GDH Group") for leasing out several units in Hong Kong and Mainland China as office premises. The total amounts received from the GDH Group for the year were included in note 39(a) to the financial statements. Details of the Group's commitments with related parties are as follows:

(i) On 28 November 2016, Global Head and Guangdong Tannery Limited ("GD Tannery"), a 71.34% owned subsidiary of GDH Limited and a fellow subsidiary of the Company, entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of the Guangdong Investment Tower (the "GDI Tower") as office premise for a term of three years commencing on 6 February 2017 at a monthly rental of HK$44,500. As at 31 December 2018, the Group expected total amounts receivable from GD Tannery for each of the years ending 31 December 2019 and 2020 to be approximately HK$534,000 and HK$52,000, respectively. As at 31 December 2017, the Group expected total amounts receivable from GD Tannery for each of the year ended 31 December 2018 and the years ending 2019 and 2020 to be approximately HK534,000, HK$534,000 and HK$52,000, respectively.

(ii) On 31 May 2017, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of the GDI Tower as office premises for the period from 1 June 2017 to 31 July 2018 at a monthly rent of HK$268,000. As at 31 December 2017, the Group expected total rental income receivable from GDH Limited for the year ended 31 December 2018 to be approximately HK$1,876,000.

(iii) On 15 July 2015, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 26th Floor and 30th Floor, and Office B1 on 29th Floor of the GDI Tower for the period from 1 August 2015 to 31 July 2018 at a monthly rent of HK$683,595. As at 31 December 2017, the Group expected total rental income receivable from GDH Limited for the year ended 31 December 2018 to be approximately HK$4,785,000.

(iv) On 10 July 2018, Global Head and GDH Limited entered into a renewal of tenancy agreement in relation to the leasing out of the premises on 26th Floor, 27th Floor and 30th Floor, and Office B1 on 29th Floor of GDI Tower as office premises for a term of three years commencing on 1 August 2018 at a monthly rent of HK$980,000. As at 31 December 2018, the Group expected total rental income receivable from GDH Limited for each of the years ending 31 December 2019, 2020 and 2021 to be approximately HK$11,760,000, HK$11,760,000 and HK$6,860,000, respectively.

(v) On 28 September 2017, GD Teem, a non-wholly-owned subsidiary of the Company, and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on 42nd and 45th Floors of the Teem Tower as office premises for a term of three years commencing on 1 October 2017 at a monthly rent of RMB442,583.05 for the first two months and RMB885,166.10 for the remaining term. As at 31 December 2018, the Group expected total rental income from Guangdong Holdings for each of the years ending 31 December 2019 and 2020 to be approximately HK$12,123,000 and HK$9,092,000, respectively. As at 31 December 2017, the Group expected total rental income from Guangdong Holdings for the year ended 31 December 2018, and each of the years ending 31 December 2019 and 2020 to be approximately HK$12,707,000, HK$12,707,000 and HK$9,530,000, respectively.

(vi) On 20 July 2015, GD Teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2015 at a monthly rent of RMB161,332.95. As at 31 December 2017, the Group expected total rental income receivable from Guangdong Holdings for the year ended 31 December 2018 to be approximately HK$1,283,000.

(vii) On 29 May 2018, GD Teem and GDH Finance Co., Ltd. ("GDH Finance"), a subsidiary of Guangdong Holdings, entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2018 at a monthly rent of RMB161,332.95. As at 31 December 2018, the Group expected total rental income receivable from GDH Finance for each of the year ending 31 December 2019, 2020 and 2021 to be approximately HK$2,210,000, HK$2,210,000 and HK$1,224,000, respectively.

39. Related Party Transactions (continued)

(d) Outstanding balances with related parties

	Notes	2018 HK$'000	2017 HK$'000
Balances due from:			
Fellow subsidiaries	*(i)*	**1,425**	2,503
A fellow subsidiary	*(ii)*	**2,784**	3,077
Associates	*(v)*	**748**	12,559
Deposits placed at a fellow subsidiary	*(vi)*	**34,237**	–
Balances due to:			
Immediate holding company	*(i)*	**(29,102)**	(48,827)
Ultimate holding company	*(iii)*	**(3,092)**	(3,289)
Fellow subsidiaries	*(i)*	**(548,860)**	(131,517)
An associate	*(i)*	**(45,312)**	–
Loans from a fellow subsidiary	*(iv)*	**(395,255)**	(421,720)

Notes:

(i) The balances due are unsecured, non-interest-bearing and have no specific terms of repayment.

(ii) The balance due is unsecured, non-interest-bearing and repayable within 30 days.

(iii) Included in the balance was HK$2,787,000 (2017: HK$2,997,000) which represented rental deposits received from the ultimate holding company. The balance due is unsecured, non-interest-bearing and repayable upon the expiry of the rental agreements. The remaining balance due is unsecured, non-interest-bearing and has no specific term of repayment.

(iv) Included in the balance was a loan of HK$13,696,000 (2017: HK$21,534,000) from a fellow subsidiary, which is unsecured and interest-bearing at 94% of the RMB benchmark 5-year lending rate per annum announced by the People's Bank of China. The balance due is repayable annually at HK$6,848,000 (2017: HK$7,178,000) for each of the years ending 31 December 2019 and 2020. The remaining balance due was HK$381,559,000 (2017: HK$400,186,000) which represented another loan from a fellow subsidiary, which is unsecured and interest-bearing at 95% RMB benchmark 3-year lending rate per annum announced by the People's Bank of China. The balance due is repayable in 2019.

(v) Included in the balance was dividend receivable of nil (2017: HK$11,784,000) from an associate. The balances due are unsecured, non-interest-bearing and have no specific terms of repayment.

(vi) The balance represented bank deposits placed at a fellow subsidiary, a non-banking financial institution in the PRC. The balance due is unsecured, interest accrued at 50% higher than the RMB Agreed Deposit Rate offered by financial institutions as announced by the People's Bank of China.

(e) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**8,196**	7,949
Post-employment benefits	**572**	580
Equity-settled share option benefits, net	**56**	392
Total compensation paid to key management personnel	**8,824**	8,921

Further details of directors' emoluments are included in note 8 to the financial statements.

40. Connected Transactions

The Group's connected transactions and continuing connected transactions conducted during the year and disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

(A) Connected Transactions

(a) The GD Land Acquisition

On 19 January 2017, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with GDH Limited to conditionally acquire approximately 73.82% of the issued share capital of GD Land from GDH Limited (the "GD Land Acquisition"). The shares of GD Land are listed on The Stock Exchange of Hong Kong Limited. Pursuant to the Sale and Purchase Agreement, the consideration for the GD Land Acquisition was to be settled as to (i) RMB839,500,000 in cash and (ii) issuance and allotment of 272,890,019 shares of the Company ("Consideration Shares") at a price of HK$10.39 per Consideration Share in an aggregate amount of RMB2,518,500,000 (equivalent to approximately HK$2,835,327,000).

GD Land is principally engaged in property investment and development in the Buxin area in Shenzhen, the PRC. The GD Land Acquisition was in line with the Group's ongoing strategy of its property investment and development segment and broadened the geographic exposure of the Group's property holding and investment business to Shenzhen. In addition, this acquisition enabled the Group to tap into the development opportunities of the Buxin area, a prime location in Shenzhen, and enhanced the Group's future strategic growth. It also brought into the fold a well-established listed platform for the Group's future expansion and facilitated consolidation of management expertise and better deploy of resources for the property segment.

Pursuant to the Sale and Purchase Agreement, the GD Land Acquisition was conditional upon the fulfillment or, where applicable, waiver of certain conditions (the "Conditions Precedent"). If the Conditions Precedent could not be satisfied (or waived) before 30 June 2017, the Sale and Purchase Agreement would be terminated unless GDH Limited and the Company otherwise agreed.

GDH Limited is the immediate holding company of the Company and hence a connected person of the Company. The GD Land Acquisition constituted a discloseable and connected transaction of the Company under the Listing Rules and was subject to reporting, announcement and independent shareholders' approval requirements. Further details of the transaction are set out in the Company's announcement dated 19 January 2017 and the Company's circular dated 24 February 2017.

The GD Land Acquisition was approved at an Extraordinary General Meeting of the Company held on 20 March 2017 and 272,890,019 Consideration Shares were allotted and issued to GDH Limited, credited as fully paid, upon completion of the GD Land Acquisition on 18 April 2017. Since the closing price of one Consideration Share was HK$11.64 as at 18 April 2017, the Consideration Shares amounted to approximately HK$3,176,440,000. Upon completion, GD Land became a subsidiary of the Company.

(b) The Shantou Water Group Acquisition

On 7 July 2017, Water Group HK, a wholly owned subsidiary of the Company, and Guangdong Water Co entered into a capital increase and joint venture agreement (the "Capital Increase and Joint Venture Agreement") with Shantou Construction Development (the then sole equity holder of Shantou Water Co and a third party independent of the Company and its connected persons) in respect of subscription of the registered capital of Shantou Water Co. Pursuant to the Capital Increase and Joint Venture Agreement, each of Water Group HK and Guangdong Water Co agreed to make capital contribution in an amount of RMB1,639 million (equivalent to approximately HK$1,925 million) and RMB67 million (equivalent to approximately HK$79 million), respectively, to Shantou Water Co after its restructuring into a limited liability company. Upon the transaction, Water Group HK, Guangdong Water Co and Shantou Construction Development will be interested as to 49%, 2% and 49% in Shantou Water Co, respectively. Shantou Water Co is principally engaged in water supply to the central area of Shantou, Guangdong, the PRC and installation and maintenance of the water supply facilities.

As the principal business of Shantou Water Co is the supply of water to the central area of Shantou and it possesses in-depth understanding of the water supply business in such region through its long operation history, the business of Shantou Water Co was complementary to the Group's water supply business and the investment in Shantou Water Co represented an important strategic entry by the Group into the water supply market in Shantou. The transaction enabled the Group to expand its market share and increased its market influence in Guangdong's water supply industry and would be beneficial to the Group for any future cooperation in water related projects in other Guangdong cities.

40. Connected Transactions (continued)

(A) Connected Transactions (continued)

(b) The Shantou Water Group Acquisition (continued)

Guangdong Water Co is an indirect wholly owned subsidiary of Guangdong Holdings, the Company's ultimate holding company. Hence, Guangdong Water Co is a connected person of the Company and the transaction constituted a connected transaction of the Company under the Listing Rules which was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement. Further details of the transaction are set out in the Company's announcement dated 7 July 2017.

(c) Formation of Joint Venture Company for the Yangjiang Water Project

On 1 February 2018, the Company, Guangdong Water Co and China First Metallurgical Group Co. Ltd. ("CFMG"), an independent third party, successfully bid for a public-private-partnership project for the investment, construction, operation and maintenance of certain water pipe networks and ancillary facilities for discharge of waste water and rainwater in Yangjiang, Guangdong Province, the PRC (the "Yangjiang Water Project"). The Company agreed to contribute to the registered capital of RMB131 million (equivalent to approximately HK$156 million) to a joint venture company to be set up for the Yangjiang Water Project. The joint venture company would be owned as to 48% by the Company, 51% by Guangdong Water Co and 1% by CFMG. The estimated total investment amount of the Yangjiang Water Project in the amount of approximately RMB820,000,000 (equivalent to approximately HK$935,866,000), of which the registered capital of the joint venture company formed part, would be wholly borne by the Company, Guangdong Water Co and CFMG.

As the Yangjiang Water Project was the Group's first sizable investment, construction and operation projects in pipe networks for discharge of waste water and rainwater, the participation would enable the Group to acquire relevant experience for future similar projects. Further, the Board was of the view that the Yangjiang Water Project was in line with the Group's strategic plan to expand its market share in the water market in Guangdong and it represents an important strategic entry by the Group into the western part of Guangdong, thus increasing the market influence and brand awareness of the Group in water related projects in such areas.

Guangdong Water Co is an indirect wholly owned subsidiary of Guangdong Holdings, the Company's ultimate holding company. Hence, Guangdong Water Co is a connected person of the Company and the transaction constituted a connected transaction of the Company under the Listing Rules which was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement. Further details are set out in the announcement of the Company dated 1 February 2018.

(d) The Yuehai Acquisition

On 27 April 2018, the Group entered into an agreement with Guangdong Yuegang Investment Development Co., Ltd. and Guangdong Yuegang Investment Property Co., Ltd., pursuant to which the Group has conditionally agreed to (i) acquire a 100% equity interest in Yuehai Property Co and (ii) to procure Yuehai Property Co to repay outstanding loans together with accrued interest up to 31 March 2018 due to Guangdong Holdings and fellow subsidiaries with an aggregate amount of RMB842,139,000 (equivalent to approximately HK$998,861,000).

The principal assets of Yuehai Property Co are the properties under the Zhuguanglu Project and the Baohuaxuan Project. The Yuehai Acquisition was in line with the Group's strategy of seeking investment and development property projects in first-tier cities in Mainland China.

Guangdong Yuegang Investment Development Co., Ltd. and Guangdong Yuegang Investment Property Co., Ltd. are directly and indirectly wholly-owned by Guangdong Holdings (being the ultimate controlling shareholder and a connected person of the Company), and, hence, associates of Guangdong Holdings and therefore connected persons of the Company. The Yuehai Acquisition constituted a connected transaction of the Company under the Listing Rules and was subject to reporting and announcement requirements. Further details of the acquisition are set out in the joint announcement of the Company and GD Land dated 27 April 2018 and the circular of GD Land dated 18 May 2018.

The Yuehai Acquisition was approved at a Special General Meeting of GD Land held on 7 June 2018. Upon completion of the Yuehai Acquisition on 11 July 2018, Yuehai Property Co became an indirectly owned subsidiary of the Group and the Group, through Yuehai Property Co, holds the Zhuguanglu Project and the Baohuaxuan Project. The total amount for the acquisition paid by the Group comprised cash consideration for equity interest in the amount of RMB1,172,550,000 (equivalent to approximately HK$1,390,761,000) and the abovementioned loan repayment in the amount of RMB842,139,000 (equivalent to approximately HK$998,861,000).

40. Connected Transactions (continued)

(B) Continuing Connected Transactions

(a) Hotel Management Agreements

(i) On 16 December 2016, 粵海國際酒店管理(中國)有限公司 (Guangdong International Hotel Management (China) Limited▲) ("GIHM (China)"), an indirect wholly-owned subsidiary of the Company, and Take Win Investment Limited, an indirect wholly-owned subsidiary of GDH Limited, the immediate holding company of the Company, entered into a management service agreement in relation to the management of 上海粵海酒店 (Guangdong Hotel (Shanghai)) ("GD Hotel Shanghai") by GIHM (China) for the period from 1 January 2017 to 31 December 2019 for a consideration of 2% of the total operating income plus 6% of the gross operating profits ("GOP") generated by GD Hotel Shanghai;

(ii) On 16 December 2016, GIHM (China) and 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Company Limited▲), a direct wholly-owned subsidiary of Guangdong Holdings which holds 100% interest in GDH Limited, entered into a management service agreement in relation to the management of 深圳市東深投資控股有限公司粵海之星酒店 (GDH Inn Hotel (Donghu) ("GDH Inn Hotel")) by GIHM (China) for the period from 1 January 2017 to 31 December 2019 for a consideration of 2% of the total operating income plus 2% of the GOP generated by GDH Inn Hotel, subject to fulfilment of performance targets; and

(iii) On 16 December 2016, GIHM (China) and Kwong Leung Hing (H.K.) Properties Company Limited, an indirect wholly-owned subsidiary of GDH Limited, entered into a management service agreement in relation to the management of 河南省粵海酒店 (Guangdong Hotel (Henan) ("GD Hotel Henan")) by GIHM (China) for the period from 1 January 2017 to 31 December 2019 for a consideration of 2% of the total operating income plus 6% of the GOP generated by GD Hotel Henan.

All of the above hotel management agreements are collectively referred to as the ''Hotel Management Agreements''.

During the year ended 31 December 2018, total income generated from hotel management and other services rendered to the above fellow subsidiaries by the Group in accordance with the terms of the Hotel Management Agreements amounted to approximately RMB4,301,000 (equivalent to approximately HK$5,094,000) (2017: RMB4,566,000 (equivalent to approximately HK$5,267,000), under the agreement(s) in force over the relevant previous period).

(b) Tenancy and Related Agreements

(i) On 15 July 2015, Global Head, a wholly-owned subsidiary of the Company, and GDH Limited entered into a tenancy agreement in relation to leasing out of 26th Floor and 30th Floor and Office B1 on 29th Floor of GDI Tower as office premises for a term of three years commencing on 1 August 2015 at a monthly rent of HK$683,595;

(ii) On 28 November 2016, Global Head and GD Tannery entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of GDI Tower as office premises for a term of three years commencing on 6 February 2017 at a monthly rent of HK$44,500;

(iii) On 31 May 2017, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of GDI Tower as office premises for the period from 1 June 2017 to 31 July 2018 at a monthly rent of HK$268,000; and

(iv) On 10 July 2018, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 26th Floor, 27th Floor and 30th Floor and Office B1 on 29th Floor of GDI Tower as office premises for a term of three years commencing on 1 August 2018 at a monthly rent of HK$980,000.

40. Connected Transactions (continued)

(B) Continuing Connected Transactions (continued)

(b) Tenancy and Related Agreements (continued)

(v) On 28 September 2017, GD Teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of 42nd and 45th Floors of the Teem Tower as office premises for a term of three years commencing on 1 October 2017 at a monthly rent of RMB442,583.05 and RMB885,166.10 for the first two months and the remaining term, respectively;

(vi) On 20 July 2015, GD teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2015 at a monthly rent of RMB161,332.95; and

(vii) On 29 May 2018, GD Teem and GDH Finance entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2018 at a monthly rent of RMB161,332.95.

Under the tenancy agreements items (v), (vi) and (vii), Guangdong Holdings and GDH Finance were also required to pay management fees and other expenses in relation to the said premises to a wholly-owned subsidiary of GD Teem which provides property management services to the said premises. The fees and expenses were calculated by reference to the applicable charging rates and the actual consumption level for the various services used by Guangdong Holdings in connection with its occupation of the said premises.

The tenancy agreements under items (i), (ii), (iii) and (iv) are collectively referred to as the "GDI Tower Agreements". During the year ended 31 December 2018, the total amounts received in accordance with the terms of the GDI Tower Agreements amounted to approximately HK$11,115,000 (2017: HK$12,056,000, under the agreement(s) in force over the relevant previous period).

The tenancy agreements under items (v), (vi) and (vii) are collectively referred to as the "East Tower Agreements". During the year ended 31 December 2018, the total amounts received in accordance with the terms of the East Tower Agreements amounted to approximately RMB15,631,000 (equivalent to approximately HK$18,512,000) (2017: RMB14,789,000 (equivalent to approximately HK$17,061,000), under the agreement(s) in force over the relevant previous period).

(viii) On 30 October 2015, 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲) ("GDTDS"), a non-wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Yuehaiyangzhong Hui Agreement") with 廣州金東源房地產開發有限公司 (Guangzhou Jindongyuan Real Estate Development Company Limited▲), a wholly-owned subsidiary of Guangdong Holdings, and a management service agreement (the "Management Agreement") with 粵海物業管理有限公司越秀分公司 (GDH Property Management Co., Ltd., Yuexiu branch▲), an indirect non-wholly-owned subsidiary of Guangdong Holdings and GDH Limited, in relation to taking the premises on Basement 1 of Yuehaiyangzhong Hui, Guangzhou as department store operation for a term of three years commencing on 1 November 2015. The Yuehaiyangzhong Hui Agreement was charged at a monthly rent of 2.6% of turnover (net of applicable tax) from the date of the tenancy agreement to the end of the first nine months, and the remaining term is charged at 3.5% of turnover. The fee under the Management Agreement was charged at RMB25 per sq.m. (inclusive of central air-conditioning and usage of water and electricity in public area) and other expenses, if any.

During the year ended 31 December 2018, the total amount in accordance with the terms of the Yuehaiyangzhong Hui Agreement and the Management Agreement amounted to approximately RMB2,239,000 (equivalent to approximately HK$2,652,000) (2017: RMB2,020,000 (equivalent to approximately HK$2,330,000), under the agreement(s) in force over the relevant previous period).

40. Connected Transactions (continued)

(B) Continuing Connected Transactions (continued)

(c) Changping Agreement

On 7 November 2016, WaterCo renewed an agreement (the "Changping Agreement") with 東莞常平粵海水務有限公司 (Dongguan Changping Guangdong Water Company Limited▲) ("Changping Water"), an indirectly wholly-owned subsidiary of Guangdong Holdings, pursuant to which WaterCo agreed to supply untreated water to Changping Water for the period from 1 January 2017 to 31 December 2018, subject to renewal by agreement of both parties prior to the expiration of the term.

During the year ended 31 December 2018, total income generated by WaterCo from the provision of water in accordance with the terms of the Changping Agreement amounted to approximately RMB31,367,000 (equivalent to approximately HK$37,148,000) (2017: RMB30,618,000 (equivalent to approximately HK$35,321,000), under the agreement(s) in force over the relevant previous period).

(d) Electricity Transaction Agreement

On 2 November 2017, 中山粵海能源服務有限公司 (Zhongshan Yuehai Energy Services Co., Ltd.▲) ("Zhongshan Energy"), an indirect subsidiary of the Company, entered into an agreement (the "Electricity Transaction Agreement") with 中山中粵馬口鐵工業有限公司 (Zhongshan Zhongyue Tinplate Industrial Co., Ltd.▲) ("Zhongyue Tinplate"), a wholly-owned subsidiary of Guangnan (Holdings) Limited, which is a 59.19% owned subsidiary of GDH Limited. Pursuant to the Electricity Transaction Agreement and subject to the terms of a formal agreement entered into between Zhongshan Energy, Zhongyue Tinplate and 廣東電網有限責任公司 (Guangdong Power Grid Company Limited▲) ("Guangdong Power Grid") in respect of the supply of electricity by Zhongshan Energy to Zhongyue Tinplate through the power grid provided by Guangdong Power Grid (the "Tripartite Agreement"), Zhongshan Energy agreed to supply, and Zhongyue Tinplate agreed to purchase, electricity through the power grid provided by Guangdong Power Grid on a continuing basis for the period from 1 January 2018 to 31 December 2018.

During the year ended 31 December 2018, the total amount in accordance with the terms of the transactions contemplated under the Electricity Transaction Agreement and the Tripartite Agreement amounted to approximately RMB28,166,000 (equivalent to approximately HK$33,357,000) (2017: Nil).

(e) Settlement and Deposit Services Cooperation Agreement

On 2 November 2018, GDTDS and GDH Finance entered into an agreement in relation to (i) settlement services, and (ii) deposit services provided by GDH Finance to GDTDS and its subsidiary(ies) ("GDTDS Group") ("Settlement and Deposit Services Cooperation Agreement") pursuant to which (i) GDH Finance has been engaged to settle, at the instruction of GDTDS Group, outstanding invoices issued to GDTDS Group with available funds temporarily deposited by GDTDS Group from time to time according to its business needs and at its discretion in a current account opened with GDH Finance; and (ii) GDTDS Group and GDH Finance shall further enter into certain account opening/operation agreements for the purpose of facilitating the performance of the Settlement and Deposit Services Cooperation Agreement for the period from 2 November 2018 to 1 November 2020. All service fees on wire transfers, account management and confirmation of balance will be waived by GDH Finance. The rates at which interest will accrue on the agreed deposit placed by GDTDS Group with GDH Finance under the Settlement and Deposit Services Cooperation Agreement will be 50% higher than the RMB Agreed Deposit Rate offered by financial institutions as announced by the People's Bank of China from time to time, subject to amendment between the parties upon change of the relevant regulatory policies.

As at 31 December 2018, the bank deposits placed at GDH Finance (which also represented the maximum daily balance of deposits during the year ended 31 December 2018) amounted to approximately RMB29,998,000 (equivalent to approximately HK$34,237,000) (2017: Nil).

40. Connected Transactions (continued)

(B) Continuing Connected Transactions (continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have unanimously confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements 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 *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 HKICPA. The Company's auditor has issued its unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group 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 Hong Kong Stock Exchange.

41. Disposal of a Subsidiary

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	*13*	437
Cash and cash equivalents		1,624
Inventories		22
Receivables, prepayments and other receivables		1,959
Payables, accruals and other liabilities		(3,318)
		724
Gain on disposal of a subsidiary	*5*	2,968
		3,692
Satisfied by:		
Cash		3,692

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

Cash consideration	3,692
Cash and cash equivalents disposed of	(1,624)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	2,068

42. Pledge of Assets

Details of the Group's assets, which are secured for the Group's bank borrowings, guarantee and performance obligations of certain service concession agreements, are set out in notes 20, 24 and 27 to these financial statements.

43. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2018

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition HK$'000	Equity investment HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Receivables under a cooperative arrangement	–	–	414,701	414,701
Equity investments designated at fair value through other comprehensive income	–	10,191	–	10,191
Financial assets at fair value through profit or loss	7,399,210	–	–	7,399,210
Other financial assets at amortised cost	–	–	1,597,820	1,597,820
Financial assets included in receivables under service concession arrangements	–	–	764,000	764,000
Financial assets included in receivables, prepayments and other receivables	–	–	969,107	969,107
Due from associates	–	–	748	748
Due from non-controlling equity holders of subsidiaries	–	–	66,670	66,670
Pledged bank deposits	–	–	42,278	42,278
Restricted bank balances	–	–	641,314	641,314
Cash and cash equivalents	–	–	7,645,121	7,645,121
	7,399,210	10,191	12,141,759	19,551,160

2017

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	–	8,098,595	8,098,595
Receivables under service concession arrangements	934,765	–	934,765
Financial assets included in receivables, prepayments, other receivables and other assets	928,446	–	928,446
Due from associates	12,559	–	12,559
Due from non-controlling equity holders of subsidiaries	66,113	–	66,113
Pledged bank deposits	68,242	–	68,242
Restricted bank balances	136,989	–	136,989
Cash and cash equivalents	7,565,286	–	7,565,286
	9,712,400	8,098,595	17,810,995

43. Financial Instruments by Category (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2018	2017
	HK$'000	HK$'000
Financial liabilities included in payables, accruals and other liabilities	**4,324,754**	4,213,168
Due to non-controlling equity holders of subsidiaries	**159,000**	174,886
Bank and other borrowings	**8,857,007**	5,329,120
	13,340,761	9,717,174

44. Fair Value Hierarchy of Financial Instruments

Aside from receivables under a cooperative arrangement, the non-current portions of receivables under service concession arrangements, the non-current portion of financial assets included in receivables, prepayments and other receivables, the non-current portion of bank and other borrowings, available-for-sale financial assets, financial assets at fair value through profit or loss and equity investment designated at fair value through other comprehensive income, management has assessed that the fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts as at 31 December 2018 and 31 December 2017 because of the immediate or short-term maturities of these financial instruments.

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the receivables under a cooperative arrangement, the non-current portion of receivables under service concession arrangements, the non-current portion of financial assets included in receivables, prepayments and other receivables, the non-current portion of bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank and other borrowings as at 31 December 2018 and 31 December 2017 was assessed to be insignificant. The carrying amounts of these assets and liabilities approximate their fair values.

The Group invests unlisted wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair value of unlisted equity investment designated at fair value through other comprehensive income, which was previously classified as available-for-sale financial assets, has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investment to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

For financial instrument in Level 3, prices are determined using valuation technique such as market-based valuation technique. Categoraisation of fair value measures within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable inputs to the overall fair value measurement.

44. Fair Value Hierarchy of Financial Instruments (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments in Level 3 as at 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Market multiples	Average P/E multiple of peers	2018: 26.35	The higher the multiple, the higher the fair value
		Discount for lack of marketability	2018: 30.84%	The higher the discount the lower the fair value

The fair value of the financial instruments in Level 3 is not significantly sensitive to a reasonable change in these unobservable inputs.

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
As at 31 December 2018				
Equity investment designated at fair value through other comprehensive income	**–**	**–**	**10,191**	**10,191**
Financial assets at fair value through profit or loss	**–**	**7,399,210**	**–**	**7,399,210**
	–	**7,399,210**	**10,191**	**7,409,401**
As at 31 December 2017				
Available-for-sale financial assets	–	8,093,040	–	8,093,040

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2017: Nil).

The movements during the year in the balance of the Level 3 financial instrument is as follows:

	2018 HK$'000
Equity investment at fair value through other comprehensive income:	
At 1 January	**–**
Effect of adoption of HKFRS 9	**5,555**
At 1 January (restated)	**5,555**
Total gains recognised in other comprehensive income	**5,076**
Exchange realignment	**(440)**
At 31 December	**10,191**

45. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, comprise bank and other borrowings, financial assets at fair value through profit or loss, other financial assets at amortised cost, available-for-sale financial assets, cash and cash equivalents, and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as receivables under service concession arrangements, trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Interest rate risk

The Group's exposure to the risk for changes in market interest rate relates primarily to the Group's debt obligations with a floating interest rate.

With all other variables held constant, a general increase of 100 basis points in the interest rate would have decreased the Group's profit before tax by HK$78,930,000 for the year ended 31 December 2018. Whereas, a general decrease of 10 basis points in the interest rate would have increased the Group's profit before tax by HK$7,893,000 for the year ended 31 December 2018.

With all other variables held constant, a general increase of 100 basis points in the interest rate would have decreased the Group's profit before tax by HK$51,478,000 for the year ended 31 December 2017. Whereas, a general decrease of 10 basis points in the interest rate would have increased the Group's profit before tax by HK$5,148,000 for the year ended 31 December 2017.

(ii) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue or expenses of operating units in currencies other than the units' functional currencies. The Group's monetary assets, financing and transactions were principally denominated in RMB and HK$. The Group is exposed to foreign exchange risk arising from changes in the exchange rate of HK$ against RMB. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future as may be necessary.

With all other variables held constant, if the Hong Kong dollar strengthened against RMB exchange rate by three percent, the Group's profit before tax would have increased by HK$12,921,000 for the year ended 31 December 2018. Whereas, if the Hong Kong dollar weakened against RMB exchange rate by three percent, the Group's profit before tax would have decreased by HK$12,921,000 for the year ended 31 December 2018.

With all other variables held constant, if the Hong Kong dollar strengthened against RMB exchange rate by three percent, the Group's profit before tax would have increased by HK$81,626,000 for the year ended 31 December 2017. Whereas, if the Hong Kong dollar weakened against RMB exchange rate by three percent, the Group's profit before tax would have decreased by HK$81,626,000 for the year ended 31 December 2017.

45. Financial Risk Management Objectives and Policies (continued)

(iii) Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Financial assets included in receivables under service concession arrangements	–	–	–	764,000	764,000
Trade receivables*	–	–	–	616,140	616,140
Receivables under a cooperative arrangement	414,701	–	–	–	414,701
Other financial asset at amortised cost	1,597,820	–	–	–	1,597,820
Due from associates	748	–	–	–	748
Due from non-controlling equity holders of subsidiaries	66,670	–	–	–	66,670
Financial assets included in prepayments and other receivables					
– Normal**	352,967	–	–	–	352,967
Pledged bank deposits					
– Not yet past due	42,278	–	–	–	42,278
Restricted bank balances					
– Not yet past due	641,314	–	–	–	641,314
Cash and cash equivalents	7,645,121	–	–	–	7,645,121
	10,761,619	–	–	1,380,140	12,141,759

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.*

** *The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

Except for the financial guarantees given by the Group as set out in note 36, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 36.

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, restricted bank balances, receivables under service concession arrangements, other receivables and deposits and available-for-sale financial assets arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

45. Financial Risk Management Objectives and Policies (continued)

(iii) Credit risk (continued)

Except for the financial guarantees given by the Group as set out in note 36, the Group does not provide any other guarantees which would expose the group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 36.

Since the Group trades only with creditworthy third parties, there is no requirement for collateral.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
31 December 2018						
Financial liabilities included in payables, accruals and other liabilities	**626,366**	**2,924,455**	**503,864**	**287,596**	**–**	**4,342,281**
Due to non-controlling equity holders of subsidiaries	**–**	**–**	**159,000**	**–**	**–**	**159,000**
Bank and other borrowings	**–**	**129,386**	**1,728,805**	**7,746,001**	**24,410**	**9,628,602**
	626,366	**3,053,841**	**2,391,669**	**8,033,597**	**24,410**	**14,129,883**

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
31 December 2017						
Financial liabilities included in payables, accruals and other liabilities	198,842	3,132,085	267,873	650,484	–	4,249,284
Due to non-controlling equity holders of subsidiaries	–	–	174,886	–	–	174,886
Bank and other borrowings	–	–	5,234,186	120,071	49,908	5,404,165
	198,842	3,132,085	5,676,945	770,555	49,908	9,828,335

The Group is exposed to liquidity risk that arises from financial guarantees as set out in note 36 to the financial statements. As at 31 December 2018, the maximum amounts that the Group could be required to settle on demand under the arrangements for the full guaranteed amount if that amount is claimed by the counterparty to the guarantees was HK$426,200,000 (2017: HK$841,273,000).

45. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a net debt to adjusted capital ratio which is net debt divided by total adjusted capital. The Group's policy is to keep the ratio lower than 100%. Net debt includes amounts due to non-controlling equity holders of subsidiaries, bank and other borrowings, loans from a fellow subsidiary, less cash and cash equivalents.

	2018 **HK$'000**	2017 HK$'000
Due to non-controlling equity holders of subsidiaries	**159,000**	174,886
Bank and other borrowings	**8,857,007**	5,329,120
Loans from a fellow subsidiary	**395,255**	421,720
Less: Cash and cash equivalents	**(7,645,121)**	(7,565,286)
Net cash	**1,766,141**	(1,639,560)
Equity attributable to owners of the Company	**40,372,255**	40,214,459
Net debt to adjusted capital ratio	**4%**	N/A

46. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,345	1,911
Investments in subsidiaries	11,376,619	15,806,145
Investments in associates	55,306	–
Total non-current assets	11,433,270	15,808,056
CURRENT ASSETS		
Amounts due from subsidiaries	9,556,608	3,868,821
Receivables, prepayments and other receivables	1,315	2,282
Cash and cash equivalents	1,005,994	64,664
Total current assets	10,563,917	3,935,767
CURRENT LIABILITIES		
Amounts due to subsidiaries	(2,321,310)	–
Payables, accruals and other liabilities	(117,328)	(55,866)
Bank borrowings	(1,000,000)	(5,065,151)
Total current liabilities	(3,438,638)	(5,121,017)
NET CURRENT ASSETS/(LIABILITIES)	7,125,279	(1,185,250)
TOTAL ASSETS LESS CURRENT LIABILITIES	18,558,549	14,622,806
NON-CURRENT LIABILITIES		
Deferred tax liabilities	(13,185)	–
Bank borrowings	(5,057,370)	–
Total non-current liabilities	(5,070,555)	–
Net assets	13,487,994	14,622,806
EQUITY		
Share capital	8,966,177	8,966,177
Reserves *(note)*	4,521,817	5,656,629
Total equity	13,487,994	14,622,806

Huang Xiaofeng
Director

Tsang Hon Nam
Director

46. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve HK$'000	Share option reserve HK$'000 *(note 32(ii))*	Exchange fluctuation reserve HK$'000	Special reserve HK$'000 *(note 32(i))*	Retained profits HK$'000	Total HK$'000
At 1 January 2017	1,733,711	15,318	(14,813)	80,852	2,158,625	3,973,693
Equity-settled share option arrangements	–	693	–	–	–	693
Share options lapsed	–	(877)	–	–	877	–
Total comprehensive income for the year	–	–	–	–	4,591,573	4,591,573
Final 2016 dividend paid	–	–	–	–	(1,961,346)	(1,961,346)
Interim 2017 dividend paid	–	–	–	–	(947,984)	(947,984)
Transfer from retained profits in accordance with the Undertaking	–	–	–	25,934	(25,934)	–
Transfer to retained profits upon issue of new ordinary shares	–	–	–	(106,786)	106,786	–
At 31 December 2017	1,733,711	15,134	(14,813)	–	3,922,597	5,656,629

	Capital reserve HK$'000	**Share option reserve HK$'000** ***(note 32(ii))***	**Exchange fluctuation reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**
At 1 January 2018	**1,733,711**	**15,134**	**(14,813)**	**3,922,597**	**5,656,629**
Equity-settled share option arrangements	**–**	**109**	**–**	**–**	**109**
Share options lapsed	**–**	**(15,243)**	**–**	**15,243**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**2,133,989**	**2,133,989**
Final 2017 dividend paid	**–**	**–**	**–**	**(2,222,859)**	**(2,222,859)**
Interim 2018 dividend paid	**–**	**–**	**–**	**(1,046,051)**	**(1,046,051)**
At 31 December 2018	**1,733,711**	**–**	**(14,813)**	**2,802,919**	**4,521,817**

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

MAJOR PROPERTIES HELD BY THE GROUP

31 December 2018

Details of Property, Plant and Equipment

Property	Lot No.	Use
The Wharney Guang Dong Hotel Hong Kong 57–73 Lockhart Road and 84–88 Jaffe Road Wan Chai Hong Kong	Subsection 1 of Section E and Subsection 2 of Section D of Inland Lot No. 2819, Section F of Inland Lot No. 2818, the remaining portion of Inland Lot No. 2817, Section G of Inland Lot No. 2818 and the remaining portion of Section D of Inland Lot No. 2817	Hotel
Guangdong Hotel (Hong Kong) 18 Prat Avenue Tsimshatsui Kowloon Hong Kong	Kowloon Inland Lot Nos. 8340, 8342, 8550, 8748 and 8915	Hotel
Sheraton Guangzhou Hotel No. 208 Tianhe Road Tianhe District Guangzhou Guangdong Province Mainland China	N/A	Hotel
Guangdong Hotel (Shen Zhen) Shennan East Road Luohu District Shenzhen Guangdong Province Mainland China	N/A	Hotel
Guangdong Hotel (Zhu Hai) No. 1145 Yuehai Road East Gongbei, Zhuhai Guangdong Province Mainland China	N/A	Hotel, offices and serviced apartments
Zhongshan Power Plant Lands and various buildings and structures of Huang Pu Town Zhongshan City Guangdong Province Mainland China	N/A	Factory
Flat Roof of 2nd Floor, 18th Floor, Unit B on 22th Floor, 28th Floor, Units A and B2 on 29th Floor Guangdong Investment Tower 148 Connaught Road Central Hong Kong	Part of Marine Lot No. 332, Marine Lot No. 333, Section A and the remaining portion of Marine Lot No. 334, Marine Lot No. 335, Section A and the remaining portion of Marine Lot No. 336, Inland Lot No. 2142 and Inland Lot No. 2143	Office
Qingxi Water Distribution Facilities by the side of Shangyuan Road Sanken Reservoir, by the side of Donghuan Road Qiyeshi Reservoir and No. 28 Qingxi Avenue Qingxi Town Dongguan Guangdong Province Mainland China	N/A	Water distribution facilities

Details of Operating Concession Rights

Intangible Assets	Existing use
Water Supply Project's (from Dongguan to Shenzhen) land use rights, reservoirs and related buildings	Water Distribution
Toll Road Project's operating rights and related buildings	Toll Road

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

31 December 2018

Details of Investment Properties

Property	Interest in property attributable to the Group	Category of lease	Existing use
Teem Tower and Teemall No. 208 Tianhe Road Tianhe District Guangzhou Guangdong Province Mainland China	76.13%	Medium term	Commercial and shopping mall
Ground Floor, 1st Floor, 5th–10th Floors, Unit A and B2 of 11th Floor, 12th Floor, 16th Floor, 19th Floor, Unit B on 20th Floor, Unit A on 22nd Floor, 23rd Floor, 25th–27th Floors, Unit B1 on 29th Floor and 30th Floor Guangdong Investment Tower 148 Connaught Road Central Hong Kong	100%	Long term	Commercial
At the junction of Heping Road and Chifeng Dao Heping District Tianjin Mainland China	76.02%	Medium term	Shopping mall

Details of Investment Properties Under Development and Properties held for sale Under Development

Property	Interest in property attributable to the Group	Site area (sq.m.)	Gross floor area (sq.m.)	Existing use
East of Yingbin Road Lirendong Village Nancun Town, Panyu District Guangzhou Guangdong Province Mainland China	31.06%	52,801	385,000	Commercial
GDH City No. 1, Dongchang Road, Luohu District, Shenzhen, Guangdong, The PRC	73.82%	66,526	432,051/30,000 underground commercial	Commercial/ commercial apartment/ office/mall

Details of Completed Properties Held for Sale

Property	Interest in property attributable to the Group	Site area (sq.m.)	Gross floor area (sq.m.)	Existing use
Ruyingju, South of Sanzhi Xiangshui Road Dongxiang Village, Panyu District, Guangzhou Guangdong, The PRC	59.06%	38,771	126,182	Residential
Laurel House, Nos. 43–79 Zhuguang Road, Yuexiu District, Guangzhou City, Guangdong, The PRC	73.82%	12,168	119,267	Residential

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