中國恒大集團
CHINA EVERGRANDE GROUP

China Evergrande Group
中國恒大集團
(incorporated in the Cayman Islands with limited liability)
Stock Code: 3333

ANNUAL REPORT 2018

TOURISM
REAL ESTATE
HIGH-TECH
HEALTH

NATIONAL LAYOUT MAP

811 PROJECTS

303 MILLION SQUARE METRES OF LAND RESERVE

228 CITIES

The Group has completed its strategic diversification after years of planning and exploration, and has established itself as global 500 conglomerate having properties for people as foundation, developing cultural tourism and healthcare business as complementary pillars, and focusing on new energy vehicle as leading growth driver.

* The specific development strategy is developed by the listed company, Evergrande Health (00708.HK).

CONTENTS

BOARD OF DIRECTORS AND COMMITTEES

CHAIRMAN OF THE BOARD OF DIRECTORS

Professor Hui Ka Yan

EXECUTIVE DIRECTORS

Professor Hui Ka Yan
Dr. Xia Haijun
Ms. He Miaoling
Mr. Shi Junping
Mr. Pan Darong
Mr. Huang Xiangui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Shing Yim, David
Mr. He Qi
Ms. Xie Hongxi

AUDIT COMMITTEE

Mr. Chau Shing Yim, David *(Chairman)*
Mr. He Qi
Ms. Xie Hongxi

REMUNERATION COMMITTEE

Mr. He Qi *(Chairman)*
Professor Hui Ka Yan
Ms. Xie Hongxi

NOMINATION COMMITTEE

Professor Hui Ka Yan *(Chairman)*
Mr. He Qi
Mr. Chau Shing Yim, David

AUTHORISED REPRESENTATIVES

Professor Hui Ka Yan
Mr. Fong Kar Chun, Jimmy

CORPORATE AND SHAREHOLDER INFORMATION

HEAD OFFICE

No.1126 Haide 3rd Road
Nanshan District, Shenzhen
Guangdong Province
The PRC
Postal code: 518054

PLACE OF BUSINESS IN HONG KONG

23rd Floor, China Evergrande Centre,
38 Gloucester Road,
Wanchai, Hong Kong

WEBSITE

www.evergrande.com

COMPANY SECRETARY

Mr. Fong Kar Chun, Jimmy
Hong Kong solicitor

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

China CITIC Bank Corporation Limited
China Minsheng Banking Corp., Ltd.
China Merchants Bank Co., Ltd.
China Zheshang Bank Co., Ltd.
Agricultural Bank of China Limited
China Everbright Bank Company Limited
Industrial and Commercial Bank of China Limited
China Bohai Bank Co., Ltd.
Huishang Bank Co., Ltd.
Industrial Bank Co., Ltd.
Bank of Shanghai Co., Ltd.
Bank of Beijing Co., Ltd.
Bank of Jinzhou Co., Ltd.
China Development Bank Corporation
Bank of Tianjin Co., Ltd.
Hua Xia Bank Company Limited
Shanghai Pudong Development Bank Co., Ltd.
Bank of Jiujiang Co., Ltd.
Guangzhou Rural Commercial Bank Co., Ltd.
Bank of Hebei Co., Ltd.

SHAREHOLDER INFORMATION

Listing Information

The shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange")
The bonds of the Company are quoted on Singapore Stock Exchange Limited ("Singapore Stock Exchange")

CORPORATE AND SHAREHOLDER INFORMATION

SECURITIES CODES

Stock

HKEX: 3333

Bonds

US$500,000,000 7.00% Senior Notes due 2020
Common Code: 158043068
ISIN: XS1580430681

US$1,565,000,000 11.0% Senior Notes due 2020
ISIN: XS1903671698
COMMON CODE: 190367169

US$1,100,000,000 7.0% Senior Notes due 2020
ISIN: XS1580430681
COMMON CODE: 158043068

US$598,181,000 6.25% Senior Notes due 2021
Common Code: 162759914
ISIN: XS1627599142

US$875,000,000 6.25% Senior Notes due 2021
ISIN: XS1627599142
COMMON CODE: 162759914

US$600,000,000 9.00% Senior Notes due 2021
ISIN: XS1958321702
COMMON CODE: 195832170

US$1,000,000,000 8.25% Senior Notes due 2022
Common Code: 158043114
ISIN: XS1580431143

US$645,000,000 13.0% Senior Notes due 2022
ISIN: XS1903671854
COMMON CODE: 190367185

US$1,025,000,000 8.25% Senior Notes due 2022
ISIN: XS1580431143
COMMON CODE: 158043114

US$1,450,000,000 9.5% Senior Notes due 2022
ISIN: XS1982036961
COMMON CODE: 198203696

US$1,344,921,000 7.50% Senior Notes due 2023
Common Code: 162759949
ISIN: XS1627599498

HK$18,000,000,000 4.25% convertible bonds due 2023
Common Code: 176780096
ISIN: XS1767800961

US$590,000,000 13.75% Senior Notes due 2023
ISIN: XS1903671938
COMMON CODE: 190367193

US$850,000,000 10.0% Senior Notes due 2023
ISIN: XS1982037779
COMMON CODE: 198203777

US$1,000,000,000 9.50% Senior Notes due 2024
Common Code: 158786753
ISIN: XS1587867539

US$700,000,000 10.5% Senior Notes due 2024
ISIN: XS1982040641
COMMON CODE: 198204064

US$4,680,476,000 8.75% Senior Notes due 2025
Common Code: 162759965
ISIN: XS1627599654

CORPORATE AND SHAREHOLDER INFORMATION

INVESTOR RELATIONS

For enquiries, please contract:
Investor Relations Department
Email: evergrandeIR@evergrande.com
Telephone: (852) 2287 9229

FINANCIAL CALENDAR

Announcement of final results:	26 March 2019
Closure of register of members to ascertain shareholders' entitlement to attend the annual general meeting ("AGM"):	3 June 2019 to 6 June 2019
AGM:	6 June 2019

REAL ESTATE INDUSTRY

REPORT OF CHAIRMAN

Hui Ka Yan
Chairman

Dear Shareholders,

I am pleased to present the reports of China Evergrande Group ("Evergrande" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2018. The Group's turnover and gross profit for the year amounted to RMB466.2 billion and RMB168.95 billion respectively, representing year-on-year growth of 49.9% and50.5% respectively. For the Year, core business profit[1] was RMB78.32 billion and the net profit excluding exchange gains and losses was RMB72.21 billion, representing year-on-year growth of 93.3% and 106.4% respectively.

1 Core business profit represents net profit excluding fair value gains on investment properties, exchange gains or losses, fair value gains or losses on financial instruments, gains or losses on disposal of financial instruments, donation and certain non-property development businesses losses.

REPORT OF CHAIRMAN

BUSINESS REVIEW

Amidst the volatilities of the world economic conditions, the Chinese economy maintained a steady and growing momentum in 2018, demonstrating strong resilience and tremendous potential. The Chinese GDP exceeded RMB90 trillion in 2018, ranking second largest in the world, and its growth of 6.6% contributed around 30% of the global GDP growth.

Under the overall guidelines to maintain steady economic growth and deepen supply-side structural reform, the Chinese Central Government continued to implement "different policies according to specific situations in different cities" and category-based policy guidelines in order to gradually establish long-term regulation mechanisms for the real estate industry and to curb irrational demand. During the second half of 2018, the previously robust growth trends in the real estate market largely disappeared and markets in different tiers of cities witnessed mixed performances. Nonetheless, the overall Chinese real estate market continued its growth and achieved another record year in terms of transaction value. Contracted sales volume of commodity housing in 2018 increased by 12.2% year-on-year to reach RMB15 trillion with contracted sales volume of residential housing reaching RMB12.6 trillion, a year-on-year growth of 14.7%. Inventory levels continued to decline, with 520 million square meters of properties available for sale at the end of the year, down by 11.0% year-on-year from the previous year-end, and residential housing inventory decreased to 250 million square meters, down by 16.8%. At the same time, industry consolidation continued and the market share of top 100 real estate companies amounted to 58.1%, a year-on-year increase of 10.6 percentage points.[1]

Faced with the complexities in the economic environment domestically and abroad as well as intense industry competition, the Board developed a strategic framework for the Group entitled "New Evergrande, Grand Strategy, Grand Perspectives". The Group remained committed to implementing the development model of "scale + profitability" and the operating model of "three-low, one-high", namely low debt, low leverage, low cost and high turnover and delivered remarkable results. During 2018, the Group achieved significant profitability growth while retaining moderate scale expansion, and meaningfully reduced total debt levels and gearing ratio. In 2018 the Group was ranked 230th in the Fortune Global 500, improving by 108 positions.

[1] Source: China Index Academy

In the meantime, the Group has completed its strategic diversification after years of planning and exploration, and has established an overall industry layout of having real estate development as foundation, developing cultural tourism and health and wellbeing management industries as complementary pillars, and focusing on high technology as leading growth driver.

Steady growth in contracted sales with strong execution and flexible and progressive strategies

In 2018, the Group achieved contracted sales of RMB551.34 billion, a year-on-year increase of 10.1%. The contracted sales GFA was 52.435 million square meters, a year-on-year increase of 4.2%; and the average selling price was RMB10,515 per square meter, a year-on-year increase of 5.6%. In 2018, the Group launched 173 new projects for sale in several dozens of cities including Shenzhen, Chongqing, Chengdu, Hefei, Tianjin, Changsha, Kunming, Guiyang, Shijiazhuang, Shenyang, Foshan, Wuxi and Dongguan; and had a total of 829 projects for sale located in 227 cities.

The Group's steady growth in sales was mainly attributable to the significant increase in the added value of products under the development model of "scale + profitability", the large number of projects for sale and available for sale. In addition, the Group implemented flexible and progressive marketing strategies, effectively shielding itself against the recurring market volatility during the year and achieving average selling price growth, which laid a solid foundation for the Group to maintain its profit margin.

Dedicated to standardised operation with significant improvement in profitability

In 2018, the Group generated strong profitability. Net profit excluding exchange gains or losses increased by 106.4% to RMB72.21 billion for the Year as compared with 2017, with a net profit margin excluding exchange gains or losses at 15.5%, an increase of 4.2 percentage points.

The above results were mainly due to the Group's dedication to its standardised operation and intensive procurement. On the one hand, the Group made consistent improvements in cost control and product quality through refined large-scale production, which resulted in continuous increase in the price of contract sales; on the other hand, with stronger brand recognition and cost control measures, the Group

REPORT OF CHAIRMAN

continued to keep its costs under control at the initial stage of land purchasing, while further controlling procurement costs and engineering costs through strategic alliance with suppliers, centralized procurement and centralized bidding.

Emphasis on growth efficiency and quality and moderate replenishment of high-quality land reserves

In 2018, the Group adhered to the development model of "scale + profitability" and reduced gearing ratio, and acquired new land reserves in a more prudent and pragmatic manner. In 2018, the Group acquired 105 new pieces of land and further acquired land surrounding 22 existing projects, recording a year-on-year decrease in land purchase. New land reserves acquired are mainly distributed in first-tier, second-tier and third-tier cities, such as Hangzhou, Chengdu, Chongqing, Zhengzhou, Taiyuan, Shijiazhuang, Shenyang, Lanzhou, Nanning, Urumqi, Wuxi, Foshan, Qingyuan and Huizhou. The newly acquired land reserves had a total GFA of 49.93 million square meters at an average land cost of RMB1,611 per square meter.

As at 31 December 2018, the Group's total land reserves comprised of 811 projects located in 228 cities across China, covering almost all first-tier cities, municipalities and provincial capitals, as well as a majority of economically developed prefecture-level cities with high growth potential. The land reserves of the Group had a total planned GFA of 303 million square meters with an original value of RMB496.2 billion and the average land cost of RMB1,635 per square meter. The original value of land reserves in first-tier and second-tier cities amounted to RMB328.5 billion, representing 66% of the total value with an average land cost of RMB2,040 per square meter. The original value of land reserves in third-tier cities amounted to RMB167.7 billion, representing 34% of the total value with an average cost of RMB1,178 per square meter.

Among the abovementioned land reserves, approximately RMB95.5 billion remained outstanding, of which approximately RMB45.5 billion, RMB28.6 billion and RMB21.4 billion would be due in 2019, 2020 and in and after 2021 respectively.

For projects such as urban redevelopments and others which were not included in the current land reserve, the total planned GFA was 77.77 million square meters, with 45 projects located in Shenzhen with the planned GFA amounting to 29.03 million square meters.

Precise and scientific construction planning and proper coordination among demands for sales, completion and delivery

The Group strives to optimize its construction planning scientifically and emphasize the precise coordination among plans of sales, completion and delivery. The Group had new construction start GFA of 75.67 million square meters during the Year. As at 31 December 2018, the Group had 714 projects under construction with GFA of 135 million square meters, an increase of 2.3% year on year. During the Year, a total of 598 projects were partially or fully completed with GFA of 72.25 million square meters, an increase of 60.1% year on year.

In 2018, the Group had a total of 666 delivered projects with total revenue of RMB452.76 billion. The Board believes that the large scale of development and construction has not only ensured ample saleable resources to further support sales, but has also boosted the completion and delivery in the next phase with corresponding increase in overall revenue.

Significant reduction in total debt levels and gearing ratio through comprehensive measures

The Group fully implemented the operating model of "three-low, one-high" and achieved a significant year-on-year reduction in its total debt levels and gearing ratio primarily through controlling new land reserves purchase, controlling costs, increasing equity by expanding profitability and using its own funds to pay off some high interest loans earlier.

As at the end of the year, the Group's net assets increased to RMB308.63 billion, representing an increase of 27.4% as compared to the end of 2017; the net gearing ratio decreased to 151.9%, which was 31.8 percentage points lower as compared to the end of 2017; and total loan levels decreased by RMB59.5 billion or 8.1% from the end of 2017.

Completion of strategic industry diversification provides new growth engines for the Group

After nine years of research and exploration, Evergrande Tourism Group has narrowed its focus to developing two flagship theme-park products that are the first of their kind in the world, namely Evergrande Fairyland and Evergrande Water World. Evergrande Fairyland is developed specifically for children aged 2-15 years old and is the only large-scale mythical-themed parks in the world that is entirely indoor and can operate year-round through all weather conditions, or "all-indoor, all-weather, all-season". Currently there are 15 Evergrande Fairyland projects underway which are expected to begin operations starting in 2021. Each Evergrande Fairyland project targets a regional market with a radius of 500 kilometers and a population of approximately 80 million people. Evergrande Water World is designed to be the world's largest "all-indoor, all-weather, all-season" hot-spring water theme park and each component park offers over 120 most popular water park rides selected from around 170 over the world. Evergrande Tourism Group expects to develop 20–30 Evergrande Water World projects in the next 2-3 years. Ocean Flower Island, located in Hainan, has already completed its exterior facade construction work and is currently undergoing interior decoration and equipment installation. It is expected to open for operation in 2020.

After almost five years of exploration, Evergrande Health Group now focuses on developing its flagship health management product entitled Evergrande Elderly Care Valley, a first of its kind in China. Evergrande Elderly Care Valley integrates first-class resources in medical services, health management, wellness living, elderly care, insurance and tourism and intends to build a comprehensive membership platform. It provides whole-lifecycle, high-quality and multi-dimensional healthcare services to its members through its unique "four major gardens", "five major innovations" and "four major services". Currently there are 12 Evergrande Elderly Care Valley projects under development and over 50 more are being planned over the next three years, to provide services for Evergrande Health members. Boao Evergrande International Hospital is the first Evergrande international hospital and the only overseas affiliated hospital of Brigham and Women's Hospital (an affiliated teaching hospital of Harvard Medical School), which has officially opened for operation.

REPORT OF CHAIRMAN

Evergrande has completed the layout of a new energy vehicle production chain, and strives to become one of the world's largest new energy vehicle makers within 3-5 years. With regard to vehicle research & development and manufacturing, we acquired a controlling stake in National Electric Vehicle Sweden AB (NEVS), and obtained the core technology of Saab Automobile AB. We formed a joint venture with world-class luxury automobile manufacturer Koenigsegg (with 65% shareholding by NEVS) and obtained strong manufacturing capability of super luxury automobiles. In terms of power batteries, we acquired a controlling stake of CENAT, and obtained Japan's leading technology and possessed the industry's top 3 power battery production capacity. In terms of electric in-wheel powertrain, we acquired a controlling stake of e-Traction from the Netherlands, and obtained the world's most advanced electric in-wheel powertrain technology, with operational production capability and application globally. In terms of automobile sales, the Group invested in Guanghui Group, and have access to the world's largest automobile distribution network. Evergrande new energy automobile base in Tianjin is scheduled to be fully operational in June this year.

Health industry and new energy vehicle industry are planned and operated by Evergrande Health Industry Group Limited (00708.HK), a subsidiary of the Group.

BUSINESS OUTLOOK

Looking forward, the Board believes that current global economic growth lacks momentum, while increasing uncertainties and instabilities, downside risks, the rise of trade protectionism are intensifying the risk of reduced growth rate in global GDP. Under the new norm of economic development, China will strive to promote supply-side reforms, foster new development momentum and enhance sustainable growth drivers, at the same time adhering to the principle of "seeking growth amid stability".

The Board firmly believes the new economy and consumption upgrading in China will create benefits both at home and abroad in a more extensive sense. The stable and sustainable development of China's economy will enable steady and sound development of the real estate industry. The Chinese government is expected to maintain the continuity and stability of its regulatory policy for the real estate market, and continue to differentiate policy measures to accelerate the establishment and improvement of a robust long-term mechanism for the market, preventing and mitigating risks in the real estate market.

Based on the analysis of the trends of the global economy, the Chinese economy and the real estate industry, the Board will continue to implement the development model of "scale + profitability" and the operating model of "three-low, one-high", solidify the foundation of real estate business, accelerate the business expansion of Evergrande Tourism Group and Evergrande Health, as well as accelerate the industrialization of major initiatives such as new energy vehicles and new energy technologies.

CORPORATE SOCIAL RESPONSIBILITY

The Group, while maintaining focus on its steady and rapid growth, continued to commit itself to charity and public welfare work relating to people's livelihood, poverty alleviation, education, environmental protection, sports and others and fulfilled corporate social responsibility and made contributions to the harmony and progress of society.

With respect to people's livelihood, the Group adhered to its philosophy of properties for the people and provided high quality and affordable homes to the general public. In addition to keeping in place the measure of "return with no reason required" to protect home-buyers' interests, the Group had established strategic alliances with 7,362 domestic and overseas upstream and downstream companies, and held the 2018 Strategic Cooperation — Management Summit in March 2018 to foster the strategic cooperation between leading upstream and downstream companies, integrate strong industry chains and support the healthy development of the real estate market.

With regard to poverty alleviation, the Group has initiated its poverty alleviation plan for Bijie City (畢節市) since December 2015. The Group has made a charitable donation of RMB11.0 billion and assigned a poverty alleviation team of 2,108 persons stationed in Wumeng mountain area to grasp the key link of targeted poverty alleviation, namely industrial poverty alleviation, relocating poverty alleviation and vocational poverty alleviation. It is planned to help all of the existing 1.03 million people in poverty in Bijie City lifting out of poverty by 2020. Up to now, the Group has donated RMB6 billion, helping 521,300 people out of poverty at the first stage. Among which, Qianxi County was out of poverty in September 2018, while Dafang County has already met the criteria on exiting of poverty county, and is applying for verification of the lifting out of poverty to superior department. In addition, the Group also donated RMB500 million to the "2018 Guangdong Poverty Alleviation Day" to help Lianping County and Heping County, Heyuan City, Guangdong.

Regarding education, the Group donated RMB20 million to 西北農林科技大學教育發展基金會 (the Education and Development Foundation of Northwest Agriculture & Forestry University) in January 2018; RMB170 million to 河南省扶貧基金會 (Henan Foundation for Poverty Alleviation) and RMB10 million to 中國科學院大學 (the University of Chinese Academy of Sciences) in April; RMB100 million to 廣東省中山大學教育發展基金會 (Sun Yat-Sen University Education Development Foundation (Guangdong)) and RMB100 million to 陝西省慈善協會 (Shaanxi Charity Association) in May; RMB100 million to 武漢科技大學 (Wuhan University of Science and Technology) in October; RMB650 million to Zhoukou City, Henan in December to promote the development of local education and medical services. In addition, the Group also continued to deepen its cooperation with top institutions around the world, such as Harvard University and Tsinghua University, to encourage the research, application and promotion of green architecture.

In respect of employment, the Group joined placement programs of universities and communities and offered promising positions and opportunities of career development to professionals.

As for sports, the Group continued to make contributions to China's sports development. Guangzhou Evergrande Taobao Football Club successfully defended the champion title of the Chinese Super League in 2018. Evergrande Football School won 19 championships in various tournaments and 8 National Youth Super League annual awards in 2018. The Group also successfully organized the Evergrande 2018 World Snooker China Championship, which is an A-grade international snooker championship.

AWARDS

During 2018, the Group won multiple awards. It was on the list of Fortune Global 500 for the third consecutive year with ranking ascended to 230th and ranked 22th in the China Top 500. The Group ranked among the Top 100 Best Global Brands and the Top 20 China Most Valuable Brands. It was awarded the first place in both the "Top 500 China Real Estate Developers" and "Top 100 China Real Estate Developers" for two years in a row. With respect to social responsibility, the Group was awarded "2018 China Corporate Social Responsibility Special Contribution Award", "China Social Responsibility Enterprise for 2018", "Annual Model Chinese Real Estate Company on Poverty Alleviation", "Outstanding Contribution Award for Poverty Alleviation" and received "China Charity Award" for the eighth consecutive year.

FINAL DIVIDEND

For reasons relating to the reorganization of Shenzhen Real Estate, the Board has elected not to declare a final dividend for 2018 at this time. The Company plans to convene another Board meeting in early July to evaluate the payment of a dividend. The Company will publish a further announcement in this regard. The Company's long-term dividend policy remains stable.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting of the Company will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules.

REPORT OF CHAIRMAN

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

During 2018, the Company repurchased from the market a total of 160,528,000 shares. All the repurchased shares have been cancelled. The Directors believe that the repurchase of shares would lead to an enhancement of the net value of the Group and its assets and/or its earnings per share. Details of the repurchases of the shares of the Company are as follows:

Month	Number of shares repurchased	Highest price per share (HK$)	Lowest price per share (HK$)	Aggregate purchase price (HK$)
July	160,528,000	22.05	19.26	3,361,296,720

On 14 February 2018, the Company issued 4.25% secured guaranteed convertible bonds due 2023 in an aggregate principal amount of HK$18.00 billion (the "Bonds"). The Bonds may be converted into shares of the Company at the conversion price of HK$37.05 per share (adjusted as a result of dividend payment) and assuming full conversion of the Bonds at the conversion price, the Bonds will be convertible into 485,829,959 shares. The Bonds are listed and traded on the Singapore Stock Exchange.

On 6 November 2018, Scenery Journey Limited, a subsidiary of the Company, issued (i) 11% senior notes due 2020 with a principal amount of US$565,000,000, (ii) 13% senior notes due 2022 with a principal amount of US$645,000,000, and (iii) 13.75% senior notes due 2023 with a principal amount of US$590,000,000.

On 23 November 2018, Scenery Journey Limited issued an additional US$1,000,000,000 of 11% senior notes due 2020, which formed a single series with the original 11% senior notes due 2020 issued on 6 November 2018.

All of the notes mentioned above are listed and traded on the Singapore Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

SUBSEQUENT EVENT

On 25 January 2019, the Company issued (i) additional US$1,100,000,000 7.0% senior notes due 2020 (which were consolidated and form a single series with the US$500,000,000 7.0% senior notes due 2020 issued on 23 March 2017), (ii) additional US$875,000,000 6.25% senior notes due 2021 (which were consolidated and form a single series with the US$598,181,000 6.25% senior notes due 2021 issued on 28 June 2017), and (iii) additional US$1,025,000,000 8.25% senior notes due 2022 (which were consolidated and form a single series with the US$1,000,000,000 8.25% senior notes due 2022 issued on 23 March 2017). All of the notes are listed and traded on the Singapore Stock Exchange.

On 6 March 2019, Scenery Journey Limited issued 9% senior notes due 2021 with a principal amount of US$600,000,000. The notes are listed and traded on the Singapore Stock Exchange.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules as the code of conduct for securities transactions conducted by the directors. Having made due and careful enquiries with the directors, the Company confirmed that for the year ended 31 December 2018, all directors always abided by the Model Code.

REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee of the Company consists of all of the independent non-executive directors of the Company, namely Mr. Chau Shing Yim, David, Mr. He Qi and Ms. Xie Hongxi. The Audit Committee assists the Board in providing an independent review of the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2018.

ANNOUNCEMENT OF FULL YEAR RESULTS ON THE STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

The announcement of full year results have been published on the Company's website (http://www.evergrande.com) and the website appointed by the Stock Exchange (http://www.hkexnews.hk).

ACKNOWLEDGEMENT

The steady development of the Group has been blessed with the trust and support of its shareholders, investors and business partners as well as the loyalty of our staff members. On behalf of the Board, I hereby express my heartfelt gratitude towards them.

By Order of the Board
China Evergrande Group
Hui Ka Yan
Chairman

Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

During the Year, the revenue was RMB466.20 billion (2017: RMB311.02 billion), representing a year-on-year growth of 49.9%. Gross profit was RMB168.95 billion (2017: RMB112.26 billion), representing a year-on-year growth of 50.5%.

Core business profit for the Year was RMB78.32 billion, which is based on the net profit excluding fair value gains on investment properties, exchange gains or losses, fair value gains or losses on financial instruments, gains or losses on disposal of financial instruments, donations and certain non-property development business losses. Core business profit margin for the Year was 16.8%, representing an increase of 3.8 percentage points as compared with 13.0% of 2017.

REVENUE

During the Year, the revenue was RMB466.20 billion, representing a growth rate of 49.9% as compared with 2017. Revenue generated from the property development segment increased by 49.7% to RMB452.76 billion. The increase was mainly due to the property area of recognized sales, which increased by 50.7% as compared with 2017 and the average selling price of the properties, which remained stable as compared with 2017. Revenue generated from property management amounted to RMB4,067 million, an increase of 34.5% from 2017, mainly attributable to the increase in area under the Group's management services in 2018. Revenue generated from investment properties amounted to RMB1,178 million, up by 45.3%, mainly due to more investment properties under rental arrangement during 2018, generating more rental income as a result.

GROSS PROFIT

Gross profit of the Group was RMB168.95 billion for 2018, representing a 50.5% growth as compared with 2017. Increase in gross profit this year was mainly attributable to 50.7% growth in the delivered property area compared to the delivered area in 2017. The average selling price of the properties per square meter and the average cost per square meter remained stable as compared with 2017. Therefore, gross profit margin of 2018 was 36.2%, up by 0.1 percentage point comparing to 2017.

FAIR VALUE GAIN ON INVESTMENT PROPERTIES

Fair value gain on investment properties of the Group for the Year was RMB1.34 billion, representing a drop of 84.2% as compared with 2017, primarily attributable to a slower appreciation in 2018 in fair value of investment properties held by the Group over the years. Investment properties of the Group mainly include commercial podiums in residential communities, office buildings with gross floor area of about 9.05 million square meters and approximately 0.38 million car parking spaces.

OTHER GAINS/(LOSSES), NET

Other net gains were RMB2.65 billion for the Year, primarily including gains on disposal of subsidiaries. Other net losses of 2017 was RMB6.02 billion, mainly attributable to the combined results of the disposal loss of the Vanke A shares, amounting to RMB7.18 billion, exchange gain and the gain on disposal of associates.

SELLING AND MARKETING COSTS

During the Year, selling and marketing costs of the Group increased from RMB17.21 billion in 2017 to RMB18.09 billion, mainly attributable to the increase in contract sales by 10.1% and advertisement and promotion expenses in 2018 exceeding that of 2017. The 3.3% ratio of selling and marketing expenses to contracted sales represented a drop of 0.1 percentage point as compared to 2017, which was mainly due to the Group continuing to adopt a series of cost-controlling measures in 2018 to prevent an overrun over its budgets on basis of contract sales amount. At the same time, the Group further saved costs by carrying out more promotion activities through internet sales channel and making full use of its in-house developed mobile phone application, named "Hengfangtong" or "恒房通", to promote property sales.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased to RMB14.81 billion in 2018 from RMB12.18 billion in 2017 primarily due to the Group's continuous expansion in business scope in the PRC. Total staff remuneration for administrative staff also increased.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Borrowings

As at 31 December 2018, the borrowings of the Group amounted to RMB673.14 billion, with the following maturities:

	31 December 2018 (RMB billion)	**As percentage of total borrowings**	31 December 2017 (RMB billion)	As percentage of total borrowings
Less than 1 year	**318.3**	**47.3%**	356.4	48.6%
1–2 years	**181.5**	**27.0%**	184.8	25.2%
2–5 years	**128.0**	**19.0%**	145.5	19.9%
More than 5 years	**45.3**	**6.7%**	45.9	6.3%
	673.1	**100.0%**	732.6	100.0%

A portion of the borrowings were secured by a pledge of properties and equipment, land use rights, investment properties, properties under development, completed properties held for sale, cash at bank and the equity interests of certain subsidiaries of the Group. The average effective interest rate of borrowings in 2018 was 8.18% per annum (2017: 8.09%).

Foreign exchange exposure

The Group's business is principally conducted in Renminbi. A significant portion of residential and investment properties are located in Mainland China. However, there are 21.3% of borrowings denominated in US dollar and HK dollar.

We estimate the Renminbi exchange rate to continue its two-way volatility as the Renminbi exchange mechanism becomes more market-oriented. We incurred exchange losses during the Year due to RMB depreciation. However, there is still uncertainty on the actual exchange losses or gains relating to borrowings in foreign currencies, when they were repaid on due dates.

The Group will closely monitor its exchange risk exposure and will adjust its debt profile when necessary based on market changes. The Group has not entered into any forward exchange contracts to hedge its exposure to any such currency risk.

Liquidity

As at 31 December 2018, the total balance of cash and cash equivalents and restricted cash of the Group was RMB204.21 billion. The abundant working capital ensured normal operation of the Group, while providing adequate support for the Group as it explores best business opportunities.

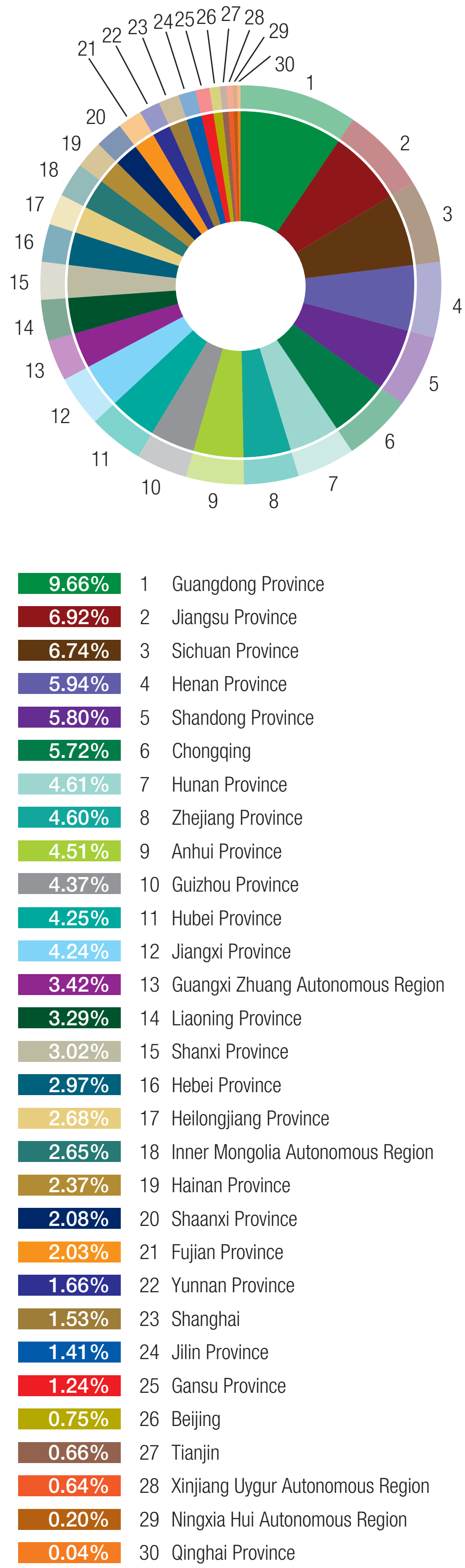
CONTRACTED SALES

In 2018, the Group's accumulated contracted sales increased by 10.1% year on year to RMB551.34 billion; contracted sales GFA reached 52.435 million square meters, representing a year-on-year increase of 4.2%; contracted ASP amounted to RMB10,515 per square meter, with a year-on-year increase of 5.6%. During the Year, the Group launched 173 new projects for sale, and had a total of 829 projects for sale, covering 30 provinces, regions and cities in China.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out the geographical distribution of contracted sales amount of the Group in 2018.

No.	Province	Sales amount (RMB million)	Percentage of sales amount
1	Guangdong Province	53,254	9.66%
2	Jiangsu Province	38,147	6.92%
3	Sichuan Province	37,171	6.74%
4	Henan Province	32,725	5.94%
5	Shandong Province	31,975	5.80%
6	Chongqing	31,554	5.72%
7	Hunan Province	25,402	4.61%
8	Zhejiang Province	25,388	4.60%
9	Anhui Province	24,839	4.51%
10	Guizhou Province	24,107	4.37%
11	Hubei Province	23,447	4.25%
12	Jiangxi Province	23,368	4.24%
13	Guangxi Zhuang Autonomous Region	18,855	3.42%
14	Liaoning Province	18,115	3.29%
15	Shanxi Province	16,666	3.02%
16	Hebei Province	16,350	2.97%
17	Heilongjiang Province	14,769	2.68%
18	Inner Mongolia Autonomous Region	14,614	2.65%
19	Hainan Province	13,064	2.37%
20	Shaanxi Province	11,458	2.08%
21	Fujian Province	11,216	2.03%
22	Yunnan Province	9,145	1.66%
23	Shanghai	8,449	1.53%
24	Jilin Province	7,785	1.41%
25	Gansu Province	6,816	1.24%
26	Beijing	4,120	0.75%
27	Tianjin	3,664	0.66%
28	Xinjiang Uygur Autonomous Region	3,542	0.64%
29	Ningxia Hui Autonomous Region	1,107	0.20%
30	Qinghai Province	228	0.04%
Total		551,340	100.00%



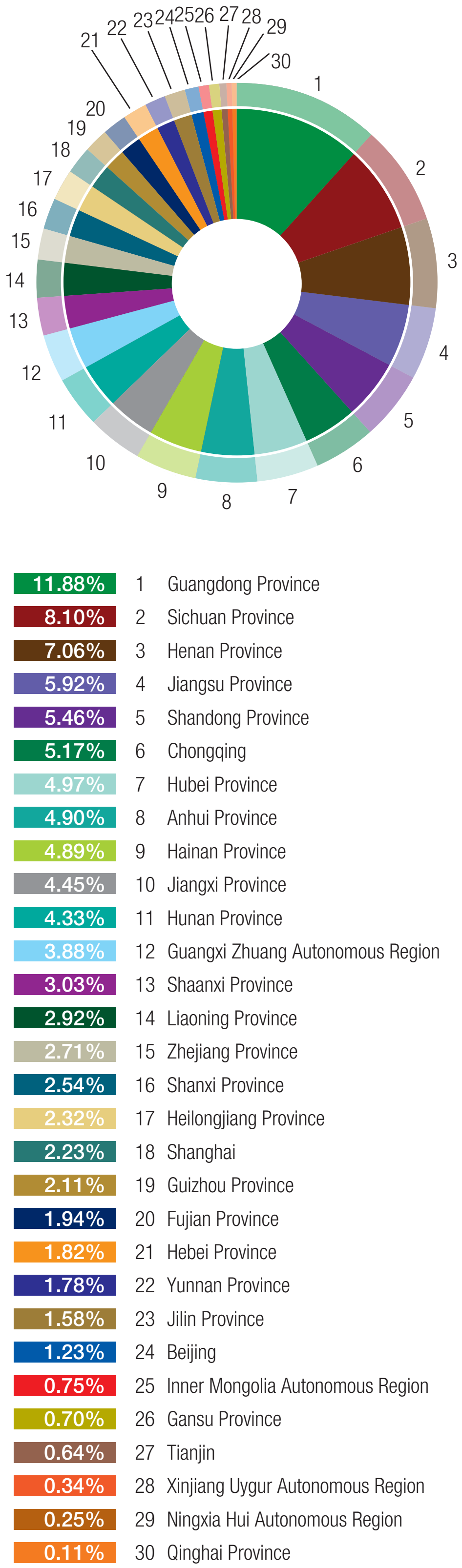
MANAGEMENT DISCUSSION AND ANALYSIS

PROPERTY DEVELOPMENT

In 2018, the Group had a total of 598 projects completed or partially completed, located in 30 provinces, regions and cities of China, with a total completed GFA of 72.25 million square meters. As at 31 December 2018, the Group had a total of 714 projects under construction, with a total area of 135 million square meters.

The following table sets out the distribution of completed areas of the Group in 2018.

No.	Province	Completed area in 2018 ('000 m²)	Percentage
1	Guangdong Province	8,584	11.88%
2	Sichuan Province	5,849	8.10%
3	Henan Province	5,100	7.06%
4	Jiangsu Province	4,274	5.92%
5	Shandong Province	3,943	5.46%
6	Chongqing	3,736	5.17%
7	Hubei Province	3,590	4.97%
8	Anhui Province	3,540	4.90%
9	Hainan Province	3,534	4.89%
10	Jiangxi Province	3,215	4.45%
11	Hunan Province	3,127	4.33%
12	Guangxi Zhuang Autonomous Region	2,807	3.88%
13	Shaanxi Province	2,189	3.03%
14	Liaoning Province	2,111	2.92%
15	Zhejiang Province	1,961	2.71%
16	Shanxi Province	1,838	2.54%
17	Heilongjiang Province	1,680	2.32%
18	Shanghai	1,608	2.23%
19	Guizhou Province	1,525	2.11%
20	Fujian Province	1,405	1.94%
21	Hebei Province	1,311	1.82%
22	Yunnan Province	1,287	1.78%
23	Jilin Province	1,143	1.58%
24	Beijing	885	1.23%
25	Inner Mongolia Autonomous Region	539	0.75%
26	Gansu Province	504	0.70%
27	Tianjin	462	0.64%
28	Xinjiang Uygur Autonomous Region	243	0.34%
29	Ningxia Hui Autonomous Region	178	0.25%
30	Qinghai Province	83	0.11%
Total		72,250	100.00%



In 2018, the Group achieved total delivery of 666 projects, with a delivery amount of RMB452.76 billion, up 49.7% year-on-year.

HUMAN RESOURCES

As at 31 December 2018, the Group had a total of 131,694 employees, of whom approximately 90% were graduates with bachelor's degree or above in property development or construction, forming a team of young, highly educated and high-quality personnel. During the Year, the Group recruited 4,710 fresh graduates through open recruitment, including 693 fresh graduates from top 10 colleges and universities such as Peking University and Tsinghua University.

The Group organized various culture-building activities from multiple dimensions so as to establish channels for training and enhancement, cross-field development and remodeling for its employees. In order to improve the comprehensive quality of employees and strengthen talents pool, the Group continued to organize the postgraduate course for Master of Project Management with Tsinghua University in 2018. The Group organized approximately 103,861 training sessions and professional seminars for staff at headquarters, regional companies and industry groups throughout the Year and trained approximately 1,530,533 staff in aggregate. The total training hours amounted to approximately 225,180 hours with approximately 2.2 hours per session.

The Group firmly believes that talent is the most important corporate resource and always adheres to a people-oriented human resources development strategy, creating a sound working environment featuring harmonious development and positive interaction between the Group and its staff. For the year ended 31 December 2018, total staff costs (including directors' emoluments) of the Group were approximately RMB24.22 billion (for the year ended 31 December 2017: approximately RMB17.26 billion).

CULTURAL TOURISM INDUSTRY

DIRECTORS AND ADMINISTRATIVE STRUCTURE

HUI KA YAN（許家印）

aged 60, Chairman of the Board of the Group. Professor Hui is responsible for organizing the overall development strategies of the Group. He has over 36 years of experience in real estate investment, property development and corporate management. Professor Hui is a member of the 11th National Committee of the Chinese People's Political Consultative Conference, a member of the standing committee of the 12th and 13th National Committee, vice-chairmen of B20 China Business Council, vice president of APEC China Business Council and also the vice-chairman of the China Enterprise Confederation, China Enterprise Directors Association and China Real Estate Association. He won "Top 100 Private Entrepreneurs in the 40th Anniversary of China's Reform and Opening-up", "China National Award for Fighting against Poverty", "China National Model Worker", "Excellent Builder for the Socialist Cause with Chinese Characteristics", and other national honors. He graduated from Wuhan University of Science and Technology in 1982, and was awarded an honorary doctorate degree in commerce by the University of West Alabama in 2008. Professor Hui has been a professor in management in Wuhan University of Science and Technology since 2003 and was appointed as doctoral tutor of that university in 2010.

XIA HAIJUN（夏海鈞）

aged 54, Vice president of the Board and Chief Executive Officer of the Group. Dr. Xia has over 31 years of experience in property development and corporate management. Dr. Xia takes full charge of our daily operations, including financial and capital operation and management of the Group, comprehensive monitoring and legal affairs management, information construction of the Group and overseas affairs and public affairs management, etc. Dr. Xia graduated from Jinan University with a master's degree in business administration in 1998 and a doctor's degree in industrial economy in 2001, and is a senior economist in China.

HE MIAOLING（何妙玲）

aged 53, executive Director and vice president of the Group. Ms. He is responsible for the Group's marketing management and legal supervision for all industry businesses. She has more than 21 years of experience in marketing strategies and brand promotion in the property projects. Ms. He joined the Group in August 1997, and has a bachelor's degree in applied mathematics and a master's degree in engineering management. Currently, Ms. He is Non-executive Director of E-House (China) Enterprise Holdings Limited.

DIRECTORS AND ADMINISTRATIVE STRUCTURE

SHI JUNPING（史俊平）

aged 35, our executive Director and vice president of the real estate group. Mr. Shi is responsible for administration, establishment and maintenance of the brand image of the Group. He has over 12 years of experience in marketing and management for property development and brand image strategic operations for multiple industries, including real estate and finance. Mr. Shi joined the Group in 2006, and has a bachelor of arts degree and a bachelor of laws degree, and a master's degree in engineering management.

PAN DARONG（潘大榮）

aged 46, our executive Director and chief financial officer. Mr. Pan takes full charge of financial management. Mr. Pan has over 24 years of experience in auditing, accounting and finance. Mr. Pan graduated from the investment and economic faculty of Zhongnan University of Economics (中南財經大學). He is an economist as approved in China.

HUANG XIANGUI（黃賢貴）

aged 48, our executive Director and general manager of the Hong Kong company. Mr. Huang joined us in 2004. He graduated from Harbin Engineering University and University of Stirling, and obtained a bachelor degree in chemical engineering and a master degree of science in banking and finance respectively. Mr. Huang is currently responsible for the international capital operation and investment management of the Group, and has over 22 years of experience in marketing, human resource management, foreign capital operation and management. Mr. Huang is also currently an executive director of HengTen Networks Group Limited.

DIRECTORS AND ADMINISTRATIVE STRUCTURE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chau Shing Yim, David (周承炎), age 55, is our independent non-executive director. Mr. Chau was elected an independent non-executive director on October 14, 2009. Mr. Chau has over 24 years of experience in corporate finance, working on projects ranging from initial public offerings and restructuring of PRC enterprises for cross-border and domestic takeovers. He was formerly a partner of Deloitte Touche Tohmatsu in Hong Kong, heading the merger and acquisition and corporate advisory services. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales, or ICAEW, with the Corporate Finance Qualification granted by ICAEW, and the Hong Kong Institute of Certified Public Accountants, or HKICPA. Mr. Chau was an ex-committee member of the Disciplinary Panel of HKICPA. He is an executive director of Tidetime Sun (Group) Holdings Limited and an independent non-executive director of Lee & Man Paper Manufacturing Limited, Shandong Molong Petroleum Machinery Company Limited, Evergrande Health Industry Group Limited, HengTen Networks Group Limited, and Varitronix International Limited, and the shares of all these companies are listed on the Hong Kong Stock Exchange.

He Qi (何琦), age 63, is our independent non-executive director. Mr. He was elected an independent non-executive director on October 14, 2009. Mr. He is the deputy secretary of China Real Estate Association, as well as the director of the training center and the intermediary professional committee of the China Real Estate Association. He worked in the State Infrastructure Commission of the State City Construction General Bureau from 1981 to 1994. He was an executive of the Development Center of the China Real Estate Association from 1995 to 1999, and an executive deputy mayor of Ji'an City of Jiangxi Province from 1999 to 2001. He has been the deputy secretary of the China Real Estate Association from 2006 to now.

Xie Hongxi (謝紅希), age 60, is our independent non-executive director. Ms. Xie is currently the deputy director, senior engineer and master degree instructor at the Engineering Training and National Experiment, Education and Demonstration Center of South China University of Technology. From 1982 to 2002, she worked at the Guangzhou Non-ferrous Metal Research Institute, chaired or participated in a number of major research projects, and was previously awarded the National Science and Technology Progress Award and the Science and Technology Achievement Award. Since 2002, she has been teaching at the South China University of Technology, engaging in operations management, teaching experimental studies at the undergraduate level and conducting research in the direction of metal surface technology. She has won provincial level awards, the university teaching achievement award and the outstanding teaching award.

SENIOR MANAGEMENT OF THE GROUP

Jiang Dalong (蔣大龍), age 53, chairman of Evergrande national energy new energy automobile investment group(恒大国能新能源汽车集团). Mr. Jiang is responsible for the strategic decisions of the group. He has over 26 years of management experience. He holds a bachelor's degree in social science from Malardalens University.

Qiu Huofa (邱火發), age 58, our executive vice president. Mr. Qiu is responsible for the daily operation and management of our financing business. He has over 32 years of experience in finance industry and banking system management. He holds a master's degree in finance and is an accredited senior economist in China.

Li Guodong (李國東), age 56, our vice president. He is responsible for capital planning and financial auditing management of the Group. He has over 20 years of experience in financial operation and management, and holds a degree in auditing.

Xu Jianhua (許建華), age 56, our vice president. He is responsible for assisting the non-debt-financing management of the Group. Mr. Xu has over 21 years of experience in capital operations and management. He holds a doctorate degree in finance and is a senior economist in the PRC.

Chen Min (陳敏), age 45, our vice president. She is responsible for our investor relations, overseas affairs, and daily management of overseas capital operations. She has over 23 years of experience in the investment banking industry and capital operations. She holds a master's degree in business administration from Harvard Business School.

Jiang Liming (姜麗明), aged 55, our vice president. She is currently in charge of treasury of the Group. Ms. Jiang has over 32 years of experience in the management of financial regulatory authorities and banking systems.

Xu Zhijian (許智健), aged 34, our vice president. Mr. Xu is responsible for network technology business and administrative management work of the Group. He holds a Bachelor of Arts (Economics) degree from the University of British Columbia in Canada and a master's degree in business administration from Tsinghua University.

Tan Zhaohui (談朝暉), age 50, our vice president. She is responsible for management of capital operations of the Group. Ms. Tan joined us in March 1997. She holds a bachelor's degree in civil engineering.

SENIOR MANAGEMENT OF INDUSTRY GROUPS

Zhen Litao (甄立濤), aged 50, is president of our real estate group. Mr. Zhen is responsible for the daily management of the group. He has over 27 years of experience in development, operation and management of real estate projects. He joined us in 2009. Mr. Zhen holds a master's degree in business management and is a registered PRC constructor and senior engineer.

Duan Shengli (段勝利), age 36, chairman of our tourism group. Mr. Duan is responsible for the overall business management of the group. He has over 13 years of business management and project management experience. He holds a bachelor's degree in English from Qinghua University.

Siu Shawn (肖恩), age 48, is president of Evergrande national energy new energy automobile investment group. Mr. Siu joined us in November 2013. He received a master's degree in economic law from Southwest University of Political Science and Law.

DIRECTORS AND ADMINISTRATIVE STRUCTURE

Shi Shouming (時守明), age 44, is chairman of our health industry group. Mr. Shi is responsible for the daily management of our health industry group and has more than 21 years of experience in real estate, project development and operations management. Mr. Shi holds a Bachelor's degree in management and is a Certified Public Accountant. He is also currently an executive director of Evergrande Health Industry Group Limited.

Liu Yongzhuo (劉永灼), aged 38, chairman of new energy technology group. He is responsible for the daily management of our new energy technology businesses. He has over 16 years of experience in human resources management, investment and operation of real estate projects, and operation and management of multi-industry companies. He holds a master's degree in engineering management. He is also currently an executive director of HengTen Networks Group Limited.

Peng Jianjun (彭建軍), age 48, chairman of our powertrain technology group. He is responsible for overall business management of the group. Mr. Peng has more than 26 years of experience in business management and holds a doctor's degree in business administration from Jinan University. He is also currently an executive director of Evergrande Health Industry Group Limited.

INVESTOR RELATIONS REPORT FOR 2018

Attaching great importance to the capital market consistently, the Group continues to establish transparent, smooth and two-way interactive investor relations with its comprehensive and multi-channel communication system.

In 2018, through different means and channels such as regular publication of results announcements, timely information disclosure in compliance with relevant regulations, launching global road shows, participation in annual conferences of investment banks, hosting site visits and meetings for investors, and releasing news through emails and on the website, the Group maintained a close connection with the capital market, deepening the understanding of the shareholders and investors towards the development strategies, business performance and operations of the Company.

In 2018, analysts from domestic and foreign major investment banks were bullish on the Company, with more than 50 positive research reports on Evergrande issued in aggregate during the year. Among them, Citibank, DBS, Bank of America Merrill Lynch, Haitong Securities, Bank of China International and other investment banks have given Evergrande rating of strong buy or buy, and a maximum target price of HK$48.53.

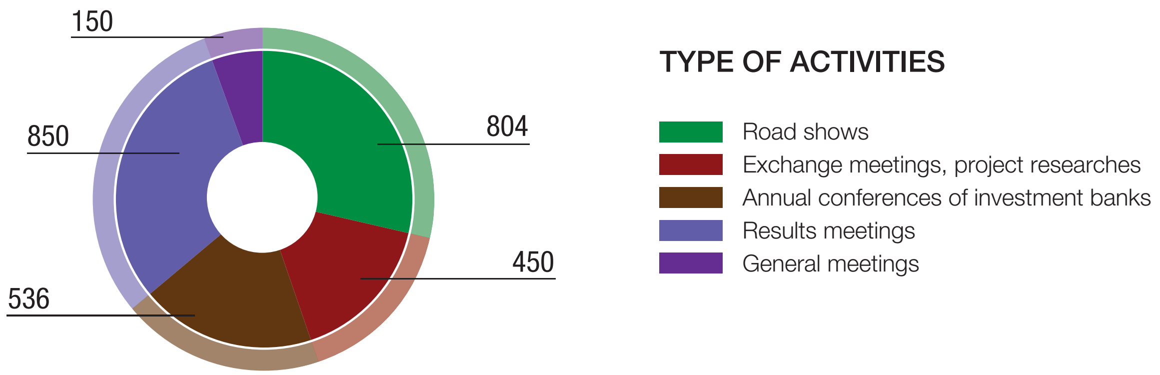
The management of the Group places high emphasis on the exchange and interaction with investors, and has met 2,790 investors of all sorts from more than 2,000 institutions worldwide in aggregate during the year. Of which, the management organized 2 large-scale results press conferences for communication and exchange with a total of 850 investors on the conferences; 2 results road shows (non-deal) for in-depth communication with 804 investors, and 2 general meetings for reporting our business performance to 150 shareholders. The management participated in 22 annual conferences for investors held by investment banks and brokerages, including Citibank, DBS Bank, Morgan Stanley and Credit Suisse, and met 450 investors. Besides, the management communicated and interacted with 536 investors through reverse roadshow, project research, talks and exchanges and other forms.

The Group also delivers to its investors its latest information regarding development strategies, development progress, sales results and market overlook through various kinds of communication channels, such as website and emails. Currently, the Group has more than 2,000 investment institutions and 3,000 investors as its regular receivers of the materials.

Through broadly listening to the views and suggestions of the capital market, the Group has continuously optimized and improved the level of corporate governance and management structure, and our relationship with investors has reached a new stage of continuous sound development.

Various types of activities in 2018:

NUMBER OF PARTICIPANTS MET




颐养园

HEALTHCARE INDUSTRY

2018 MAJOR AWARDS AND PRIZES

1 The first place of Top 500 Chinese Real Estate Developers for 2018

2 The first place of Top 100 Chinese Real Estate Firms for 2018

3 The first place of Top 10 Comprehensive Strength of the China Real Estate Developers for 2018

4 The first place of Top 10 Comprehensive Development of the China Real Estate Developers for 2018

5 The first place of Top 10 Enterprise Responsible Real Estate of the China Real Estate Developers for 2018

6 The first place of Top 10 Comprehensive Strength of Chinese Listed Real Estate Companies for 2018

7 Top 10 Corporate Governance of Chinese Listed Real Estate Companies for 2018

8 Top 10 Comprehensive Strength of Chinese Real Estate Companies Listed in Hong Kong for 2018

9 Top 10 Investment Value of Chinese Real Estate Companies Listed in Hong Kong for 2018

10 Top 10 Chinese Green Real Estate Companies for 2018

11 Top 100 Outstanding Private Entrepreneurs of the 40th Anniversary of China's Reform and Opening Up

12 China Charity Award

13 China Corporate Social Responsibility Special Contribution Award for 2018

14 China Social Responsibility Enterprise for 2018

15 Annual Model Chinese Real Estate Company on Poverty Alleviation

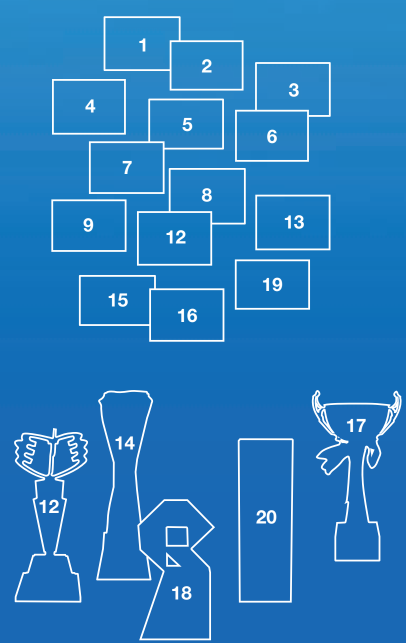
16 Outstanding Contribution Award for Poverty Alleviation

17 Gold Cup of Hongmian Cup for Poverty Alleviation in Guangdong

18 Exemplary Enterprise of Contribution to Targeted Poverty Alleviation for 2018

19 Excellent Case of Enterprise Poverty Alleviation Under the Blue Book of Enterprises for Poverty Alleviation (2018)

20 Case of Chinese Brand for the 40th anniversary of China's Reform and Opening Up as Selected by People's Daily



2018 MILESTONES

1 Jan

On 4 January, Evergrande announced that its contracted sales reached RMB500.96 billion in 2017.

On 31 January, HK$18.00 billion of 4.25% convertible bonds due 2023were issued successfully.

2 Feb

On 28 February, Bo'ao Evergrande International Hospital officially opened.

3 Mar

On 10 March, Hui Ka Yan, the chairman of the Board, attended the press conference of the first meeting of the 13th session of the Chinese People's Political Consultative Conference (CPPCC) National Committee and answered questions of reporters.

On 14 March, Hui Ka Yan, the chairman of the Board, was elected as member of the Standing Committee of the 13th session of CPPCC National Committee.

On 21 March, Evergrande ranked first in " Top 500 China Real Estate Developers" for the second year in a row, and won other awards such as the first place of " Top 10 Comprehensive Strength of Chinese Real Estate Developers", the first place of " Top 10 Comprehensive Development of the Chinese Real Estate Developers" and second place of " Top 10 Operation Efficiency of the Chinese Real Estate Developers".

On 26 March, Evergrande published its annual results for 2017. A number of core indicators, including core business profit, net profit and revenue ranked first in the industry.

On 29 March, the 2018 annual meeting of Evergrande Group was convened and officially implemented the seventh major strategic decision: New Evergrande, New Start, New Strategies, New Blueprint.

On 31 March, Evergrande held the 2018 strategic partnership summit, with more than 1000 top entrepreneurs attended.

2018 MILESTONES

4 Apr

On 9 April, Evergrande and the Chinese Academy of Sciences (CAS) to reach a comprehensive cooperation. Evergrande will invest RMB100 billion in the next decade to jointly create three scientific research bases with CAS, and made a formal entry to the high-tech industry.

5 May

On 9 May, the List of Top 100 Most Valuable Chinese Brands for 2018 was published and Evergrande led the list with its brand value of RMB78 billion.

On 25 May, China Real Estate Association and China Real Estate Assessment Center* jointly published "Top 100 Chinese Listed Real Estate Companies for 2018". Evergrande ranked first in the Comprehensive Strength of Chinese Listed Real Estate Companies.

6 Jun

On 7 June, released the List of Top 2,000 Global Listed Companies for 2018 was released at the website of Forbes USA, and Evergrande ranked 127th.

7 Jul

On 19 July, Evergrande was ranked 230th in the List of Fortune Global 500 with its revenue of US$46.019 billion, representing a sharp rise of 108 places.

On 31 July, Forbes released the 2018 China Charity List, Hui Ka Yan, the chairman of the Board, ranked top with charitable cash donation of RMB4.21 billion.

2018 MILESTONES

8 Aug

On 28 August, Evergrande published its interim results for 2018. A number of core indicators continued to rank top in the industry. Core profit, net profit, revenue, total asset and net asset amounted to RMB55.01 billion, RMB53.0 billion, RMB300.35 billion, RMB1,769.9 billion and 324.5 billion, respectively, all of them have broken the industry record.

On 29 August, All-China Federation of Industry and Commerce announced the list of "Top 500 Chinese Private Enterprises for 2018" and Evergrande ranked 7th.

9 Sep

On 13 September, the Ministry of Civil Affairs held the Tenth China Charity Award Ceremony at the Great Hall of the People in Beijing, and Hui Ka Yan, the chairman of the Board, won this top charity award for eight times.

On 23 September, Evergrande acquired approximately 41% equity interest in Guanghui Group at a consideration of RMB14.49 billion, and became its second largest shareholder.

10 Oct

On 24 October, Hui Ka Yan, the chairman of the Board, was selected as Top 100 Outstanding Private Entrepreneurs of the 40th Anniversary of China's Reform and Opening Up.

On 31 October, Hengda Real Estate, through its subsidiary Scenery Journey Limited, issued US$565 million of 11.0% senior notes due 2020, US$645 million of 13.0% senior notes due 2022 and US$590 million of 13.75% senior notes due 2023 successfully, which will be mainly utilized for refinancing of overseas debts.

2018 MILESTONES

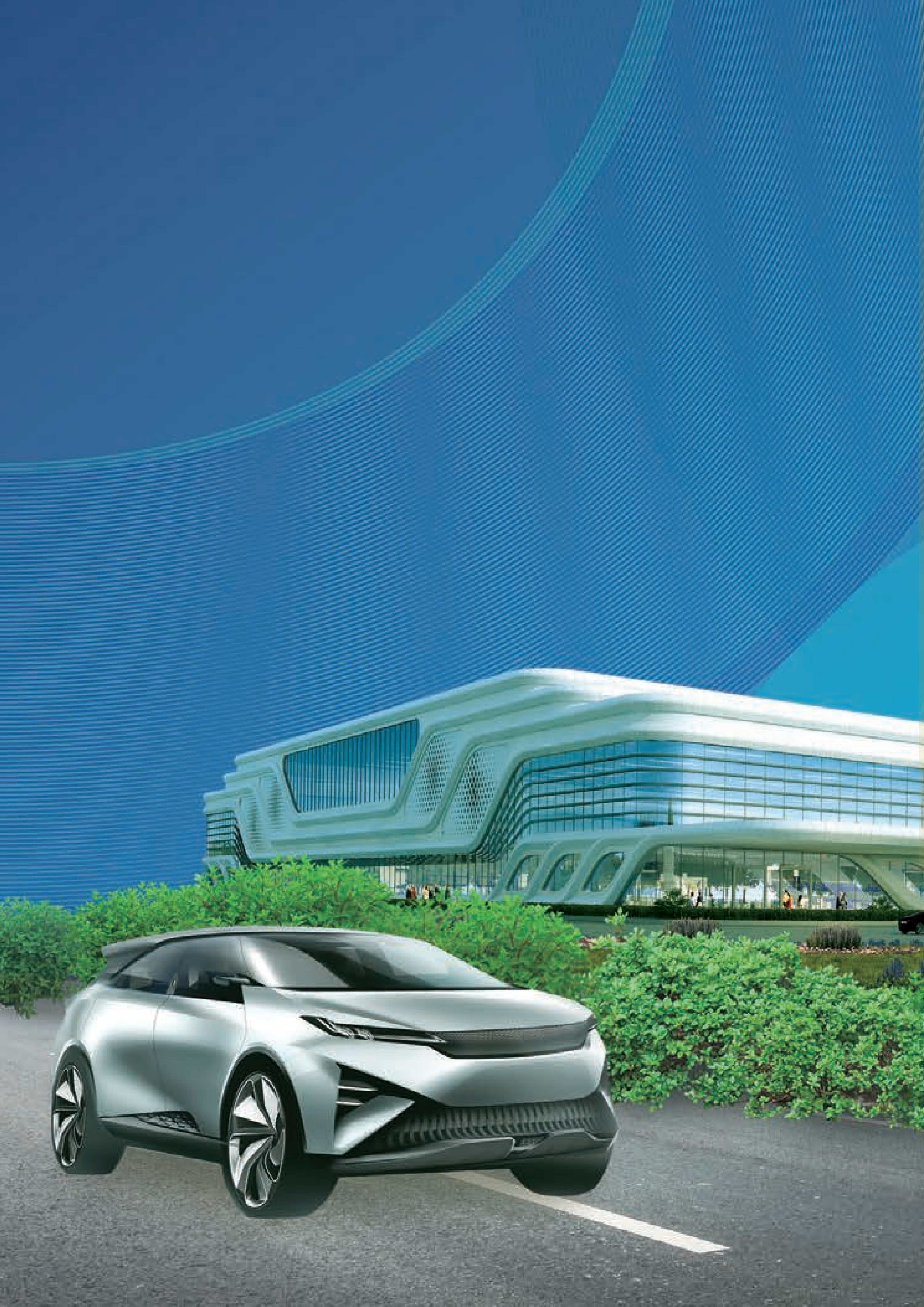
11 Nov

On 19 November, Hengda Real Estate, through its subsidiary Scenery Journey Limited, issued an additional US$1 billion of 11.0% senior notes due 2020 successfully.

On 19 November, Evergrande announced that Youth Training Championship will be held in Madrid from 2019 onwards with investment of RMB50 million per year, aiming to promote football training for youth in China.

12 Dec

On 1 December, it marked the third anniversary of the poverty alleviation plan of Evergrande Group for Bijie, Guizhou, and the poverty alleviation work achieved phased results.



HIGH TECHNOLOGY INDUSTRY

CORPORATE GOVERNANCE REPORT

The Company recognises the value and importance of achieving high corporate governance standards consistently to the enhancement on corporate performance and accountability. The board (the "Board") of directors (the "Director(s)") of the Company is committed to abide by principles of good corporate governance to meet legal and commercial standards and requirements, focusing on areas such as internal control, risk management, fair disclosure and accountability to the shareholders of the Company, except for the following deviation from the Corporate Governance Code.

According to Code Provision E.1.2 of the Corporate Governance Code, the chairman of the Board should attend the annual general meeting of the Company. Professor Hui Ka Yan, the chairman of the Board, did not attend the annual general meeting held on 8 June 2018 due to his other business commitment. Mr. Pan Darong, an Executive Director, acted as the Chairman of the annual general meeting.

Save for the above deviation, the Directors are of the view that the Company has been conducting its business according to the principles of the Corporate Governance Code ("Corporate Governance Code") set out in Appendix 14 to the Listing Rules, and has complied with all the code provisions of the Corporate Governance Code during the year ended 31 December 2018.

For the year ended 31 December 2018, the Board has reviewed the effectiveness of the risk management and internal control systems of the Company and considers them effective and adequate.

BOARD OF DIRECTORS

Composition of the Board

During the year ended 31 December 2018 and up to the date of issue of this annual report, the Board of the Company comprises the following executive Directors and independent non-executive Directors.

Professor Hui Ka Yan *(Chairman)*
Dr. Xia Haijun *(Vice Chairman and Chief Executive Officer)*
Ms. He Miaoling *(Executive Director)*
Mr. Shi Junping *(Executive Director)*
Mr. Pan Darong *(Executive Director and Chief Financial Officer)*
Mr. Huang Xiangui *(Executive Director)*
Mr. Chau Shing Yim, David *(Independent Non-executive Director)*
Mr. He Qi *(Independent Non-executive Director)*
Ms. Xie Hongxi *(Independent Non-executive Director)*

Biographical details of the current members of the Board are set out on page 24 to page 26 of this annual report. Save for being members of the Board, each of the Directors is independent and not related to one another.

During the year ended 31 December 2018, the Board has at all times met the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and at least one independent non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise.

Each of the executive Directors has entered into a service contract with the Company for a period of three years until terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year. The appointments are subject to the provisions of retirement by rotation of Directors under the articles of association of the Company (the "Articles"). In accordance with the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board was satisfied with the independence of the independent non-executive Directors.

Roles and Duties

The Board is in charge of formulating strategic business development, reviewing and monitoring the business performance of the Group, approving major funds allocation and investment proposals as well as preparing and approving the financial statements of the Group. The Board also gives clear instructions on the authority delegated to the management in relation to the administration and management of the Group.

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer ("CEO") of a listed company should be separated and should not be performed by the same individual. The Company was in compliance with code provision A.2.1 during the period under review with Professor Hui Ka Yan being the chairman and Dr. Xia Haijun being the CEO of the Company, respectively.

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. The Company has procedures in place for safeguarding assets against unauthorised use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or publications and the compliance with applicable laws and regulations. For the year ended 31 December 2018, the Directors reviewed the overall effectiveness of the internal control and risk management systems of the Group. An internal audit department has been established to perform regular financial and operational reviews and conduct audit and risk management assessment on the Company and its subsidiaries. The work carried out by the internal audit department will ensure the internal controls and risk management systems are in place and function properly as planned.

The external auditors will report to the Company on the weakness in the Group's internal control and accounting procedures which have come to their attention during the course of their audit work.

The Board is responsible for performing the following corporate governance duties: (a) to formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and disclosures in the Corporate Governance Report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board. The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate in the meetings either in person, by proxy, or by means of electronic communications.

7 Board meetings were convened by the Company during the year ended 31 December 2018. At least 14 days' notice before the date of the meeting is given for a regular Board meeting to allow all Directors to make arrangements to attend. For all other Board meetings, reasonable notices were also given.

CORPORATE GOVERNANCE REPORT

The attendance of individual Directors at the Board meetings and general meetings held during the year ended 31 December 2018 is set out below:

Director	Number of meetings attended/ Number of meetings held Annual General Meeting	Extraordinary General Meeting	Board Meeting
Professor Hui Ka Yan	0/1	0/1	3/7
Dr. Xia Haijun	0/1	0/1	3/7
Ms. He Miaoling	0/1	0/1	7/7
Mr. Shi Junping	0/1	0/1	7/7
Mr. Pan Darong	1/1	1/1	7/7
Mr. Huang Xiangui	1/1	1/1	7/7
Mr. Chau Shing Yim, David	1/1	1/1	7/7
Mr. He Qi	1/1	1/1	7/7
Ms. Xie Hongxi	1/1	1/1	7/7

Committees of the Board

The Company has set up the audit committee, remuneration committee and nomination committee in respect of the Board.

Directors' Training

During the year under review, all of the Directors of the Company have attended continuous professional development training sessions in compliance with Code Provision A.6.5 of the Corporate Governance Code.

The company secretary of the Company has also complied with the 15 hours training requirements under Rule 3.29 of the Listing Rules.

AUDIT COMMITTEE

The audit committee comprised three members, namely Mr. Chau Shing Yim, David, chairman of the committee, Mr. He Qi and Ms. Xie Hongxi, who were all independent non-executive Directors. The audit committee adopted the written terms of reference which were basically the same as those set forth in the code provision C.3.3 of the Corporate Governance Code. The audit committee is principally responsible for the following duties, *inter alia*:

- to provide recommendations on the appointment, reappointment and removal of external auditors to the Board, approve the remuneration and terms of engagement of the external auditors and handle any issues related to the resignation or dismissal of the auditors;
- to review and monitor whether the external auditors are independent and objective and whether the audit procedures are effective in accordance with applicable standards;
- to formulate and implement policies for the engagement of external auditors for the provision of non-audit services;

- to monitor the integrity of the financial statements, the annual reports and accounts and the interim reports of the Company, and review the material financial reporting judgements therein;

- to review the financial control, internal control and risk management systems of the Company;

- to discuss the internal control and risk management systems with the management and to ensure that the management has discharged its duties of setting up an effective internal control and risk management system;

- to review the financial and accounting policies and practices of the Group; and

- to review the external auditors' letter to the management, any material queries that the auditors made to the management in respect of the accounting records, financial accounts or systems of control as well as the management's response.

Two meetings of the audit committee were held on 22 March 2018 and 24 August 2018, respectively, to review the Group's 2017 annual results and 2018 interim results and all the committee members attended those two meetings. The audit committee has recommended the Board in relation to the re-appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending 31 December 2019 at the forthcoming annual general meeting of the Company.

For the year ended 31 December 2018, the emolument of the external auditor of the Company for the annual audit and review of interim financial statements amounted to RMB35 million. For the year ended 31 December 2018, the emolument of the external auditor of the company for non-audit services amounted to RMB3 million.

Pursuant to the Articles, the tenure of the auditor of the Company will expire upon the conclusion of the 2018 annual general meeting. The audit committee recommended the Board to propose the re-appointment of PricewaterhouseCoopers as the auditor of the Company at the 2018 annual general meeting.

REMUNERATION COMMITTEE

The remuneration committee's terms of reference were basically the same as those set forth in code provision B.1.2 of the Corporate Governance Code. The majority of the members of the remuneration committee were independent non-executive Directors. For the year ended 31 December 2018, the members of the remuneration committee included Professor Hui Ka Yan, Mr. He Qi (chairman of the remuneration committee) and Ms. Xie Hongxi.

The remuneration committee is principally responsible for the following duties:

- to make recommendations and suggestions to the Board in respect of the remuneration policy and structure of the Directors and senior management of the Company and the establishment of formal and transparent procedures for developing such remuneration policy;

- to determine the specific remuneration packages of all executive Directors and senior management;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to review and approve payments to the executive Directors regarding compensation for their loss or termination of office or appointment, to ensure relevant terms of the contracts, and that the compensation is fair and not excessive for the Company;

- to review and approve the compensation arrangements involved in the termination or dismissal of Directors due to misconduct, to ensure that those arrangements are determined according to the relevant terms of the contracts, and that the compensation is reasonable and appropriate; and

- to ensure that no Director or any of his associates is involved in deciding his/her own remuneration.

One meeting was convened by the remuneration committee for the year ended 31 December 2018 to approve the grant of share options under the Share Option Scheme to certain Directors and Management of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

Duties of the Board and the Management

The Board is responsible for the risk management and internal controls system and has the responsibility to review the effectiveness of the system. The Board is responsible for assessing and determining the nature and extent of the risks that the Group is willing to take in achieving the strategic objectives, and monitoring the establishment and maintenances of appropriate and effective risk management and internal controls system. The management is responsible for designing and maintaining an effective risk management and internal control system as well as providing confirmations to the Board on the effectiveness of the system.

Sound risk management and internal controls systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance that there will be no material misstatements or losses.

Risk Management

1. *Establishment of a risk management system and structure*

   Based on the measures in the previous year, China Evergrande Group continued to improve the risk management system structure at the group level to guide the risk assessment activities of various segments and ongoing risk monitoring activities through the following measures:

   - **Established a risk management organizational structure** — An organizational structure with the Audit Committee of China Evergrande Group as the decision-maker, the leading officers groups and management of various business segments of the Company as the execution unit, has been established to divide risk management responsibilities and set out clear responsibilities for risk management and the risk information reporting line.

Major roles and responsibilities under the risk management system are set out below:

Role	Major Responsibility
The Board (the decision-making party)	• Evaluates and determines the nature and acceptable extent of risks so as to ensure that the strategic objectives can be achieved; • Ensures the establishment and maintenance of effective risk management and internal control system; • Supervises the management in designing, implementing and supervising the risk management and internal control system;
The Audit Committee (the decision-making party)	• Reviews the structure of risk management and monitors its effectiveness on a continuous basis, and reviews the fundamental risk management system; • Supervises the management in designing, implementing and supervising the risk management and internal control system; • Monitors the frequency of the occurrence of material control default or discovery of material control weakness, and the extent to which they have resulted in unforeseen and emergent outcomes or contingencies that have had, may have or may in the future have, a material impact on the Company's financial performance or condition;
Senior management of the Group (the leader)	• Facilitates the establishment of risk management system, and reviews the policy and mechanism in relation to the risk management on regular basis; • Designs, implements and supervises the risk management of the Group, reports matters in relation to risk management to the Audit Committee on a regular basis, and reports and discloses significant risk information to the Audit Committee; • Confirms to the Audit Committee on whether the risk management system is effective or not;
Management of the Group's headquarters and the management of the segments under the Group (the execution party)	• Updates the risk exposure list of operations on a regular basis, and conducts relevant works such as risk identification and evaluation; • Formulates and implements risk response plan for operations; • Responsible for the execution and implementation of specific risk management measures; • Monitors and controls various risk exposures in operations, and timely reports risk information to the coordinator and management of risk management matters; • Conducts other works in relation to risk management;
Coordinator of risk management matters	• Organizes the commencement of risk identification and evaluation works; • Organizes the preparation of regular risk evaluation reports and submits the results to the management of risk management matters; • Organizes and coordinates risk management training and guidance;
Internal audit function	• Acts as risk management supervisory institution, responsible for supervising and evaluating the risk management works conducted by the Group and its business segments.

CORPORATE GOVERNANCE REPORT

- **Updated risk assessment criteria** — During the Year, based on the changes in the internal and external environment, the Group updated the risk assessment criteria applicable to each business segment according to the nature, business characteristics and strategic objectives of the Group and various activities of the business segments and the risk appetite of the management. The risks that are most likely to affect the achievement of the objectives have also been assessed using commonly recognized assessment methods and assessment criteria.

- **Formulation and standardization of work flow for risk management work** — The Group has established risk management procedures (for details, please refer to Figure 1: Risk Management Procedures set out below), with major steps including identification, analysis, response, control and reporting, so as to manage, mitigate and control risk exposures systematically. By mainly considering the operating goals of the Group and different business segments, the Group identifies risk factors affecting the achievement of such operating goals. The Group also evaluates possible and potential impacts of each specific risk, adopts specific measures in response to identified risk exposures, and continuously supervises and evaluates changes in risk exposure and timely adjusting response measures. During the Year, the Group reviewed, adjusted and improved the risk management procedures to improve the efficiency and standardization of its operations.

- **Frequency of risk management review is determined** — The frequency of evaluation and report on risk management of the Group has been determined (at least once for every year). The aforesaid key elements standardized the format and frequency of report through the Risk Management Manual of China Evergrande Group.

(Figure 1: Risk Management Procedures)

2. *Risk Evaluation Conducted by Various Segments of China Evergrande Group in 2018*

In addition to the above risk management framework at the group level, the management of the Group also engaged external advisors to assist in the continuous maintenance and improvement of the risk management system of two major segments, namely real estate segment and insurance segment, in 2018, details of which include the following:

- **Follow up on the implementation of risk management improvement measures of various important segments from last year's risk assessment**

  During the Year, the management of the Group followed up on the implementation of the risk management improvement measures identified in prior year's risk assessment, as well as establishing a continuous risk management cycle which contains the process of "Risk assessment — Implementation the of the risk management procedures — Follow-up of the implementation of risk management measures — Risk management system ongoing monitoring" in order to ensure that the any risk management gaps are rectified and the ability to prevent and cope with risks is strengthened (for details, please refer to Figure 2: Risk assessment and management model).

(Figure 2: Management and Control Mode for Risk Management)

- **Conduct a comprehensive review of risk management system of various important segments in 2018**

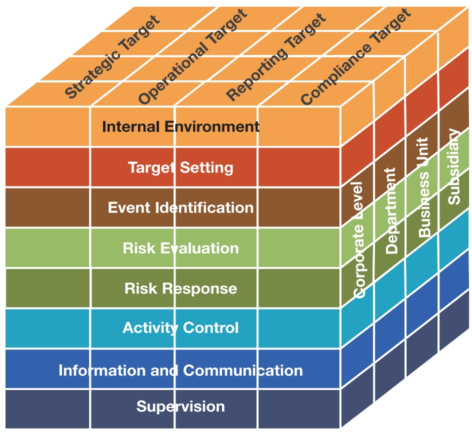
  The management of various segments updated the risk assessment standards and risk database based on the external market environment, changes in the internal operation environment, business development and risk preferences. In addition, it adopted a systematic risk assessment method to review the changes in the nature and degree of the material risks facing its business segments, identified the material risks facing its business segments, analyzed the status of risk management and control and countermeasures to be adopted and key risk management strategies, and reported the risk assessment results to the Audit Committee. The Audit Committee reviewed and assessed the changes in the nature and degree of material risks on behalf of the Board, and completed the review of the risk management systems and considered the risk management systems is effective and sufficient.

CORPORATE GOVERNANCE REPORT

Internal Control

1. *Establishment of Internal Control and Management Framework*

China Evergrande Group has established its own internal control system by making reference to the internal control and management framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (please refer to chart 3: COSO internal control management framework). The Group's risk management system consists of five interdependent elements, which coordinates with each other and operate to ensure the effectiveness of internal control functions of the Group. The five elements are: control environment, risk assessment, control activities, information and communication and monitoring activities.



(Figure 3: Internal Control and Management Framework of COSO)

The internal control system of China Evergrande Group, as an integral part of its risk management, is established based on the risks facing the Group. The management at the headquarters of the Group, its business segments and other departments have designed and implemented a series of policies and procedures in view of the process relating to finance, operation and compliance, and monitors the implementation of these policies and procedures and their effectiveness.

2. *Internal Audit*

China Evergrande Group has in place internal control functions. The management has developed measures for improvement in view of the vulnerabilities and weaknesses identified during the internal controls review, which are followed up on by the Supervision Department on a regular basis to ensure the timely implementation of the relevant measures for improvement.

Review of Risk Management and Internal Control System

During the Year, the Board of China Evergrande Group had conducted a comprehensive review of the risk management and internal control system of the Group through the Audit Committee. Major works included the continuous implementation of the results of risk evaluation and internal control review in the prior year, as well as the commencement of various material risk evaluations for the Year and internal control review of key operating procedures. The period under review covered the accounting year of 2018. The scope of review covered the Group and major business segments, primarily focuses on review of controls over all major aspects, including financial control, operating control and compliance control. Such review had considered the changes in the nature and severity level of material risks and the capability of the Group in handling business and external environment changes. The Board considers that the relevant systems are effective and sufficient.

The Audit Committee has reviewed the resources, staff qualifications and experience of the Company on accounting, risk management, internal audit and financial reporting functions as well as its staff training programs and budget and confirmed the adequacy of the same.

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has put in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls, including but not limited to establishing controls for monitoring business and corporate developments and events so that any potential inside information is promptly identified and escalated, restricting access to inside information to a limited number of employees on a need-to-know basis, and ensuring employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality, for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to assess the latest position of the Group.

NOMINATION COMMITTEE

The nomination committee's terms of reference were basically the same as those set forth in code provision A.5.2 of the Corporate Governance Code. The majority of the members of the nomination committee were independent non-executive Directors. For the year ended 31 December 2018, the members of the nomination committee included Professor Hui Ka Yan, chairman of the committee, Mr. He Qi and Mr. Chau Shing Yim, David.

The nomination committee is principally responsible for the following duties:

- to review the structure, size and composition (including skills, diversity, knowledge and experience) of the Board on a regular basis, and make recommendations and suggestions to the Board on any proposed changes;
- to identify individuals with suitable qualifications and diversity to serve as members of the Board, and select and nominate the relevant persons to serve as Directors or make recommendations and suggestions to the Board in this regard;
- to appraise the independence of the independent non-executive Directors in accordance with the provisions of applicable laws, regulations and rules; and
- to make recommendations and suggestions to the Board regarding the appointment and re-appointment of Directors by the Company and succession plan for Directors (especially the chairman and CEO, if any, of the Company).

In the nomination of a new Director to the Board, the Nomination Committee will consider potential new candidates openly from time to time having regard to the strategic needs of the Company and the Board. The potential pool of candidates include (but without limitation) local and overseas academia, Hong Kong and overseas listed companies directors, executives and experts in the relevant fields.

The Nomination Committee will consider the candidates based on merit having regard to the experience, skills and expertise as well as the overall board diversity, and make recommendations to the Board as appropriate.

The Board has adopted a "Board Diversity Policy" to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee reviews the Board Diversity Policy as appropriate to ensure the continued effectiveness of the Board.

During the year ended 31 December 2018, one meeting was convened by the nomination committee to consider the composition of the Board.

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules as the code of conduct for securities transactions conducted by the Directors. The Company, having made detailed and cautious enquiries, confirmed that all Directors have abided by the Model Code for the year ended 31 December 2018.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner.

DIVIDEND POLICY

The Company has, since listing, adopted a dividend policy (the "Dividend Policy") where the Company would, where the situation allows, declare dividends to shareholders every year and may declare special dividends from time to time. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into consideration the Group's distributable profits generated during the year, the financial situation and liquidity of the Group, the investment needs and the retained profits that should be set aside for future development purposes. While sharing the profit with shareholders, the Company will also maintain sufficient reserves to meet its liabilities and to ensure the implementation of the Group's strategy for future development. The payment of dividend is also subject to any restrictions under the laws of Cayman Islands, the laws of Hong Kong and the articles of association of the Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Company has received, from each of Xin Xin (BVI) Limited and Professor Hui Ka Yan, an annual declaration on the compliance with the deed of non-competition (the "Deed") entered into by each of them in favour of the Company pursuant to which each of Xin Xin (BVI) Limited and Professor Hui Ka Yan has unconditionally undertaken to the Company that it/he will not directly or indirectly participate in, hold any right or interest, or otherwise be involved in any business which may compete with that of the Group. The independent non-executive Directors have reviewed and were satisfied that each of Xin Xin (BVI) Limited and Professor Hui Ka Yan has complied with the Deed for the year ended 31 December 2018.

AMENDMENTS TO THE COMPANY'S CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, the Company has not amended its memorandum of association or its articles of association.

SHAREHOLDERS' RIGHTS

Right to convene an extraordinary general meeting ("EGM") (including the right of making proposals/moving resolutions at the EGM).

Any two or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at the general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving resolutions at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving resolutions at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

If within 21 days of the deposit of the Requisition the Board has not notified the Eligible Shareholders and fails to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the memorandum and articles of association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board to convene such meeting shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

RIGHT TO NOMINATE DIRECTORS FOR ELECTION AT GENERAL MEETINGS

If a shareholder wishes to propose a person other than a Director of the Company for election as a Director, the shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at 23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong, or the branch share registrar of the Company, Computershare Hong Kong Investor Services Ltd., at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for the attention of the Company Secretary. The Notice must state clearly the name of the shareholder(s) and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned (not the person to be nominated).

The Notice must also be accompanied by a letter of consent signed by the person nominated to be elected on his/her willingness to be elected as a Director. The period for lodgment of the Notice will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for the election of Directors of the Company and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified by the Company's branch share registrar and upon their confirmation that the request is proper and in compliance with the rules of procedures, the Company Secretary will ask the nomination committee of the Company (the "Nomination Committee") and the Board of the Company to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

DISCLAIMERS

The contents of the section headed "Shareholders' Rights" in this report are for reference only and in compliance with disclosure requirements, which do not represent and shall not be regarded as legal or other professional advice to the shareholders. Shareholders should seek their independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims any liability for all liabilities and losses incurred by the shareholders in reliance upon any contents of the section headed "Shareholders' Rights".

INVESTOR RELATIONS

The Company emphasises communication with institutional investors so as to enhance the transparency of the Company, and stresses the importance of channels to collect and respond to the opinions of institutional investors.

During the year under review, the Directors and senior management of the Company participated in several roadshows and investment meetings. Additionally, the Company released information and responded to questions from the media through press conferences and the Company's website, and communicated with the media on a regular basis.

Shareholders, investors and the media can make enquiries with us by the following methods:

By telephone:	(852) 2287 9229
By post:	23rd Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong
By email:	evergrandeir@evergrande.com

REPORT OF THE BOARD OF DIRECTORS

The Directors of the Company are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2018 of the Group.

MAJOR BUSINESS

The Group is a developer of large scale quality residential property projects and a leader adopting a standardised operational model in China to manage various projects in different cities across China. The Group is also engaged in other businesses including property construction, hotel operations, finance business, tourism and real estate business, healthcare business. The analysis of the revenue of the Group during the year is set out in Note 6 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year under review and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2018 are provided in the section headed "Chairman's Statement" and the section headed "Management Discussion and Analysis" of this annual report.

A analysis of the Group's performance during the year ended 31 December 2018 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" of this annual report.

FINANCIAL STATEMENTS

The results of the Group during the year are set out in the consolidated statement of comprehensive income. The financial position of the Group as at 31 December 2018 is set out in the consolidated balance sheet. The cash flow position of the Group during the year is set out in the consolidated statement of cash flows.

CAPITAL

The changes in the capital of the Group during the year are set out in Note 20 to the financial statements.

FINAL DIVIDEND

For reasons relating to the reorganization of Shenzhen Real Estate, the Board has elected not to declare a final dividend for 2018 at this time. The Company plans to convene another Board meeting in early July to evaluate the payment of a dividend. The Company will publish a further announcement in this regard. The Company's long-term dividend policy remains stable.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 31 May 2019.

RESERVE

Details of the changes in reserve of the Group during the year are set out in Note 21 to the financial statements.

PROPERTY AND EQUIPMENT

The changes in property and equipment during the year are set out in Note 7 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

REPORT OF THE BOARD OF DIRECTORS

The percentage of turnover attributable to the Group's five largest customers in aggregate was less than 30% of the Group's total turnover. The Company was not aware of any of the Directors or their connected persons and shareholders holding over 5% of the interest in the share capital of the Company having any interest in the above suppliers and customers.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

The Company provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. We reinforce business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

DONATION

During the year, the charitable contributions and other donations made in Hong Kong and China by the Group totalled RMB3,793 million.

DIRECTORS

The Directors in office during the year and as of the date of this report are as follows:

Executive Directors

Professor Hui Ka Yan
Dr. Xia Haijun
Ms. He Miaoling
Mr. Shi Junping
Mr. Pan Darong
Mr. Huang Xiangui

Independent Non-Executive Directors

Mr. Chau Shing Yim, David
Mr. He Qi
Ms. Xie Hongxi

Biographical details of the Directors and senior management are set forth in the section headed "Directors and Administrative Structure" of this report.

Pursuant to Article 16.18 of the Articles, Mr. Hui Ka Yan, Mr. Xia Haijun and Ms. He Miaoling will retire in the forthcoming AGM, and being eligible, will offer themselves for re-election.

SERVICE CONTRACTS OF DIRECTORS

There was no service contract that cannot be terminated by the Company without compensation (other than statutory compensation) within one year, entered into by the Company with any Directors proposed to be re-elected in the forthcoming AGM of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

There was no significant contract with any member of the Group being a party therein and in which the Directors of the Company had direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

None of the Directors or their respective associates has an interest in any business which competes or may compete with the business of the Group. Xin Xin (BVI) Limited is beneficially owned by our chairman, Professor Hui Ka Yan, who is the controlling shareholder of the Company. The controlling shareholders have provided annual confirmation of their compliance with the deed of non-competition undertaken by them. The independent non-executive Directors have reviewed whether the controlling shareholders abided by the non-competition undertaking and confirmed that no controlling shareholder had violated the non-competition undertaking given by them.

SHARE OPTION SCHEME

On 14 October 2009, the Company adopted a share option scheme ("Share Option Scheme") whereby the Board can grant options for the subscription of the shares of the Company to the employees, executives and officers of the Group and such other persons that the Board considers to contribute or having contributed to the Group (the "Participants") as described in the Share Option Scheme for the purposes of providing incentives and rewards for their contributions to the Group.

On 14 April 2010, the maximum number of shares that can be issued under the Share Option Scheme was 1,500,000,000 Shares, representing 10% of the issued share capital of the Company. The number of Shares in respect of these options that may be granted according to the Share Option Scheme shall not exceed 10% of the issued Shares of the Company immediately after the completion of the Global Offering (as defined in the prospectus) of the Company. On 3 October 2017, the shareholders of the Company resolved to refresh the scheme mandate limit of the Share Option Scheme to 1,313,501,390 Shares, representing 10% of the total number of shares of the Company in issue on the date of the passing of the resolution to refresh such mandate limit.

Unless otherwise approved by the shareholders of the Company in a general meeting, the number of Shares that may be granted to each of the Participants under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders, as defined in the Listing Rules), or the total number of shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time.

There is no minimum period for which the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, provided that no options shall be exercised 10 years after they have been granted.

The exercise price of the options shall not be lower than the highest of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the Shares.

Each grantee shall pay a consideration of HK$1.00 at the time the option is granted.

The Share Option Scheme has taken effect and will remain effective within a period of 10 years from the date of adoption. Other details of the Share Option Scheme are set out in the prospectus.

REPORT OF THE BOARD OF DIRECTORS

On 18 May 2010, the Company granted an aggregate of 713,000,000 options to 137 Participants to subscribe for an aggregate of 713,000,000 Shares in the Company, representing approximately 4.75% of the number of Shares in issue as at the date of grant. On 9 October 2014, the Company granted in aggregate 530,000,000 options to 8 Directors and 93 employees to subscribe for 530,000,000 Shares, representing approximately 3.63% of the number of Shares in issue as at the date of grant. On 6 October 2017, the Company granted in aggregate 743,570,000 options to 5 Directors and 7,989 employees to subscribe for 743,570,000 Shares, representing approximately 5.7% of the total number of Shares of the Company in issue as at the date of grant. The details of the options granted are as follows:

Grantees	Date of grant of options	Exercise period	Exercise price (HK$)	Number of options granted	Number of options outstanding as at 1 January 2018	Number of options exercised/ lapsed/ cancelled during the year	Number of options outstanding as at 31 December 2018
5 Directors	18 May 2010	Note 1	2.40	113,000,000	Nil	Nil	Nil
130 other employees	18 May 2010	Note 1	2.40	600,000,000	3,726,000	2,441,000	1,285,000
8 Directors	9 October 2014	Note 2	3.05	138,000,000	102,386,000	29,437,000	72,949,000
93 employees	9 October 2014	Note 2	3.05	392,000,000	155,394,000	73,454,000	81,940,000
5 Directors	6 October 2017	Note 3	30.20	5,000,000	5,000,000	Nil	5,000,000
7,989 employees	6 October 2017	Note 3	30.20	738,570,000	720,230,000	88,430,000	631,800,000
				1,986,570,000	986,736,000	193,762,000	792,974,000

Notes:

1. The options granted on 18 May 2010 with respect to a Participant will be exercisable in 5 tranches in the following manners:

   (i) the first tranche of 20% of the Shares that are the subject of the options granted (rounded down to the nearest whole number) will be exercisable at any time during the period from 18 May 2011 to 17 May 2016;

   (ii) the second tranche of 20% of the Shares that are the subject of the options granted (rounded down to the nearest whole number) will be exercisable at any time during the period from 18 May 2012 to 17 May 2017;

   (iii) the third tranche of 20% of the Shares that are the subject of the options granted (rounded down to the nearest whole number) will be exercisable at any time during the period from 18 May 2013 to 17 May 2018;

   (iv) the fourth tranche of 20% of the Shares that are the subject of the options granted (rounded down to the nearest whole number) will be exercisable at any time during the period from 18 May 2014 to 17 May 2019; and

   (v) the fifth tranche of remaining Shares that are subject of the options granted will be exercisable at any time during the period from 18 May 2015 to 17 May 2020.

2. The options granted on 9 October 2014 with respect to a Participant will be exercisable in 5 tranches in the following manners:

   (i) the first tranche of 20% of the Shares that are the subject to the Option granted (rounded down to the nearest whole number) will be exercisable at any time during the period commencing from 9 October 2015 and ending on 8 October 2020;

   (ii) the second tranche of 20% of the Shares that are the subject to the Options granted (rounded down to the nearest whole number) will be exercisable at any time during the period commencing from 9 October 2016 and ending on 8 October 2021;

   (iii) the third tranche of 20% of the Shares that are the subject to the Options granted (rounded down to the nearest whole number) will be exercisable at any time during the period commencing from 9 October 2017 and ending on 8 October 2022;

   (iv) the fourth tranche of 20% of the Shares that are the subject to the Options granted (rounded down to the nearest whole number) will be exercisable at any time during the period commencing from 9 October 2018 and ending on 8 October 2023; and

   (v) the fifth tranche comprising the remaining number of Shares that are subject to the Option granted will be exercisable at any time during the period commencing from 9 October 2019 and ending on the expiry date of the Option Period.

REPORT OF THE BOARD OF DIRECTORS

3. On 6 October 2017, an aggregate of 743,570,000 options were granted to 5 Directors and 7,989 employees. The exercise price of the options is HK$30.20 and the closing price of the Shares on 4 October 2017, the date immediately before the date on which the options were granted, was HK$30.75. The options will be exercisable in 5 tranches in the following manners:

   (i) the first tranche of 20% of the Shares that are the subject of the Options granted will be exercisable at any time during the period commencing from 6 October 2018 to 5 October 2023;

   (ii) the second tranche of 20% of the Shares that are the subject of the Options granted will be exercisable at any time during the period commencing from 6 October 2019 to 5 October 2024;

   (iii) the third tranche of 20% of the Shares that are the subject of the Options granted will be exercisable at any time during the period commencing from 6 October 2020 to 5 October 2025;

   (iv) the fourth tranche of 20% of the Shares that are the subject of the Options granted will be exercisable at any time during the period commencing from 6 October 2021 to 5 October 2026; and

   (v) the fifth tranche of 20% of the Shares that are the subject of the Options granted will be exercisable at any time during the period commencing from 6 October 2022 to 5 October 2027.

4. The expiry date of the Share Option Scheme is 13 October 2019, being the date of not more than 10 years pursuant to Rule 17.03(11) of the Listing Rules.

5. Valuation of the options granted

   The valuation of options granted for the year ended 31 December 2018 was determined based on the binomial lattice model with the following assumptions:

Date of grant	6 October 2017
Closing share price on the date of grant	HK$30.20
Exercise price per share	HK$30.20
Annual risk free rate	1.44% p.a. for 6-year option 1.51% p.a. for 7-year option 1.57% p.a. for 8-year option 1.64% p.a. for 9-year option 1.71% p.a. for 10-year option
Expected volatility	50.36% p.a. for 6-year option 51.83% p.a. for 7-year option 51.42% p.a. for 8-year option 51.42% p.a. for 9-year option 51.42% p.a. for 10-year option
Term of the option	6-10 years
Expected dividend yield	6.37%

The fair value of each option:

Vesting period	Directors	Other employees
1 year after grant date	HK$9.52	HK$9.68
2 year after grant date	HK$10.23	HK$10.21
3 year after grant date	HK$10.24	HK$10.22
4 year after grant date	HK$10.21	HK$10.19
5 year after grant date	HK$10.10	HK$10.08

DEBENTURE

At any time during the year, neither the Company nor its holding company or its subsidiaries was a party to any arrangements to enable the Directors acquire benefits by means of acquisition of the shares or debentures of the Company or any other body corporate.

INTEREST AND SHORT POSITIONS OF DIRECTORS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2018, the interest and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

(i) Interest in the Shares of the Company

Names of Director	Nature of interest	Number of Shares	Approximate Percentage of shareholding
Hui Kai Yan *(Note 1)*	Interest of controlled corporation	10,162,119,735(L)	77.47%
Chau Shing Yim, David	Beneficial Owner	800,000(L)	0.00%

Note:

(1) Of the 10,162,119,735 Shares held, 9,370,871,497 Shares were held by Xin Xin (BVI) Limited, a company wholly owned by Professor Hui Ka Yan, and 791,248,238 Shares were held by Even Honour Holdings Limited, a company indirectly wholly owned by Professor Hui Ka Yan's spouse, Ms. Ding Yumei ("Mrs Hui"). The interest of Even Honour Holdings Limited in the Company is also deemed to be held by Professor Hui Ka Yan pursuant to the SFO.

(ii) Interest in the underlying shares of the Company

Name of Director	Nature of interest	Number of Shares outstanding involved in the options granted under the Share Option Scheme	Approximate percentage of shareholding of those options granted and exercised under the Share Option Scheme based on the existing issued share capital of the Company
Xia Haijun	Beneficial owner	59,749,000	0.46%
He Miaoling	Beneficial owner	6,600,000	0.05%
Shi Junping	Beneficial owner	4,100,000	0.03%
Huang Xiangui	Beneficial owner	3,300,000	0.03%
Pan Darong	Beneficial owner	3,000,000	0.02%
Chau Shing Yim, David	Beneficial owner	200,000	0.00%
He Qi	Beneficial owner	600,000	0.00%
Xie Hungxi	Beneficial owner	600,000	0.00%

(iii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	Number of securities	Approximate percentage of shareholding
Hui Kai Yan	Xin Xin (BVI) Limited	100 shares	100%
	Even Honour Holdings Limited (Note)	1 share	100%
Huang Xiangui	Evergrande Health Industry Group Ltd.	360,000 shares	0.00%

Note: Pursuant to the SFO, Even Honour Holdings Limited is indirectly wholly owned by the spouse of Professor Hui Ka Yan and is deemed to be an associated corporation of the Company.

(iv) Interest in debentures of the Company

Name of Director	Currency of debentures	Amount of debenture bought	Amount of debentures in same class in issue
Hui Kai Yan	US$	500,000,000	590,000,000
	US$	500,000,000	645,000,000
Xia Haijun	US$	50,000,000	2,300,000,000

Save as disclosed above, as at 31 December 2018, none of the Directors, executives of the Company or their respective associates had any other interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE BOARD OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As far as the Directors or executives of the Company are aware, as at 31 December 2018, other than the Directors or chief executives of the Company as disclosed above, the following persons had interest or short positions in the Shares or underlying shares which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required pursuant to Section 336 of the SFO to be entered in the register to be kept therein or to be notified to the Company and the Stock Exchange:

Name of shareholder	Nature of interest held	Interest in the shares	Approximate percentage of shareholding
Mrs. Hui	Interest of controlled corporation	10,162,119,735(L) (Note 1)	77.47%
Xin Xin (BVI) Limited	Beneficial owner	9,370,871,497(L) (Note 2)	71.43%
Even Honour Holdings Limited	Beneficial owner	791,248,238(L) (Note 3)	6.03%
Yaohua Limited	Interest of controlled corporation	791,248,238(L) (Note 3)	6.03%
Chan Hoi Wan	Interest in controlled corporation, beneficial owner and trustee	1,173,383,000 (Note 4)	8.94%
Lau Luen Hung	Interest of spouse and interest of children under 18 years of age	1,173,383,000 (Note 5)	8.94%
Chinese Estates Holdings Limited	Interest in controlled corporation	857,541,000 (Note 6)	6.54%
Sino Omen Holdings Limited	Interest in controlled corporation	857,541,000 (Note 6)	6.54%
Solar Bright Ltd.	Interest in controlled corporation	857,541,000 (Note 6)	6.54%

Notes:

1. Of the 10,162,119,735 Shares held, 791,248,238 Shares were held by a company wholly owned by Mrs Hui, and 9,370,871,497 Shares were held by Xin Xin (BVI) Limited, a company indirectly wholly owned by Dr Hui Ka Yan, the spouse of Mrs. Hui. The interest of Xin Xin (BVI) Limited in the Company is also deemed to be held by Mrs Hui pursuant to the SFO.

2. Xin Xin (BVI) Limited is beneficially owned by Professor Hui Ka Yan.

3. Even Honour Holdings Limited is wholly owned by Yaohua Limited, and Yaohua Limited is wholly owned by Mrs. Hui.

4. Ms. Chan Hoi Wan beneficially owns 315,842,000 shares and is the trustee for 857,541,000 shares for her children under 18. The 857,541,000 shares that are held on trust are held through a series of companies wholly owned by Chinese Estates Holdings Limited, a company which is 50.02% owned by Solar Bright Limited. Solar Bright Limited is a wholly-owned subsidiary of Sino Omen Holdings Limited, a company wholly-owned by Ms. Chan Hoi Wan.

5. Mr. Lau Luen Hung is the spouse of Ms. Chan Hoi Wan, and his interests in the Company are the interest of his spouse and interests of his children under 18.

6. Chinese Estates Holdings Limited is 50.02% held by Solar Bright Limited, which is a wholly-owned subsidiary of Sino Omen Holdings Limited. Sino Omen Holdings Limited is a company wholly-owned by Ms. Chan Hoi Wan.

SUBSIDIARIES

Details of the major subsidiaries of the Company as at 31 December 2018 are set out in Note 44 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisting during the year.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group had an aggregate of 131,694 employees. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to individual performance and current market rate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection

Environmental protection is a key focus for the Group. The conscientious use of resources and adoption of related best practices across the Group's businesses underlie its commitment to safeguarding the environment. The Group encourages environmental protection by promoting awareness of the issue amongst its employees. It also complies with relevant environmental legislation.

An ever-improving management system, enhanced monitoring of activities and procedures, energy conservation and environmental protection are strongly promoted.

Compliance with Laws and Regulations

The Group has established procedures in place to ensure that its operations comply with applicable laws, rules and regulations. The audit committee of the Company is delegated by the Board to monitor the Group's policies and practices for achieving compliance with legal and other regulatory requirements, and such policies and practices are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operating units whenever necessary.

As far as the Company is aware, the Group has complied in all material respects with laws and regulations that have a significant impact on the Group's business and operations.

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of any personal characteristics. It has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behaviour, and employees' rights and benefits. The Group also establishes and implements policies that promote a harmonious and respectful workplace.

The Group believes that employees are the most valuable assets of an enterprise and regards human resources as its corporate wealth. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different types of training, staff's knowledge of corporate operations as well as their occupational and management skills are enhanced. The Group also organises staff-friendly activities for employees, such as outings, to promote staff relationships and physical fitness.

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The Group provides communications on health and safety matters and other programmes to employees in order to raise their awareness of such issues and enhance their related behavior.

REPORT OF THE BOARD OF DIRECTORS

Training and Development

The Group is committed to the professional and personal development and growth of all employees and considers training and development a critical continuous process. Many on the-job and other training courses and programmes are provided to help employees maintain and develop their skills and professionalism. Structured training programmes including seminars are offered to staff with the objective of grooming and unleashing their full potential, supporting, organisational development and facilitating team synergies. Employees are encouraged to take advantage of these programmes in order to equip themselves with the skills and knowledge for expanded career opportunities within the Group.

Commitment to Quality

The Group has made relentless efforts in providing property development and management services. Looking forward to 2018, the Company will continue with its research and investment to enrich the Group's services.

The Company will also ensure the quality of its services and place customers' demands at its priority in order to maintain its competitive advantage and to increase shareholders' value further.

Management of Supply Chain

The Group adheres to open, fair and transparent criteria in selecting suppliers and service providers, and has established a supplier evaluation system in which suppliers' price, quality, cost, delivery and after-sales service are assessed. The Group will carry out long-term monitoring of suppliers' quality and conduct regular reviews of all suppliers as well as casual examinations of different suppliers to ensure the sustainable quality of material supplies and services it receives.

Community Investment

The Group upholds the corporate philosophy of "Put people first, serve the country through industry development" with integration of its business features and advantages in resources, to actively commit to social responsibility and philanthropy and assist to solve the social problems. Since the establishment of the Group, it has focused its key concern on various charity events in respect of people's livelihood, poverty alleviation, environmental protection, education, sports, and culture. The Group does its utmost to shoulder its social responsibility and create social value in an effort to achieve harmonious development between the Company and society.

The Company has complied with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The Environmental, Social and Governance Report of the Company will be separately disclosed to the public after the publication of this annual report.

CORPORATE GOVERNANCE

The Company strives to maintain a high corporate governance standard and has complied with the Corporate Governance Code set out in Appendix 14 of the Listing Rules. Further information of the corporate governance practices of the Company is set out in the Corporate Governance Report section of this annual report.

FOREIGN EXCHANGE RISKS

Details of the foreign exchange risks are set out in Note 4(a)(i) to the financial statements.

PURCHASE, SALE AND REPURCHASE OF SHARES

During 2018, the Company repurchased from the market a total of 160,528,000 shares. All the repurchased shares have been cancelled. The Directors believe that the repurchases of shares would lead to an enhancement of the net value of the Group and its assets and/or its earnings per share. Details of the repurchases of the shares of the Company are as follows:

Month of repurchase	Number of shares repurchased	Highest price per share (HK$)	Lowest price per share (HK$)	Aggregate purchase price (HK$)
July 2018	160,528,000	22.05	19.26	3,361,296,720

On 14 February 2018, the Company issued 4.25% secured guaranteed convertible bonds due 2023 in an aggregate principal amount of HK$18.00 billion (the "Bonds"). The Bonds may be converted into shares of the Company at the conversion price of HK$37.05 per share (adjusted as a result of dividend payment) and assuming full conversion of the Bonds at the conversion price, the Bonds will be convertible into 485,829,959 shares. The Bonds are listed and traded on the Singapore Stock Exchange.

On 6 November 2018, Scenery Journey Limited, a subsidiary of the Company, issued (i) 11% senior notes due 2020 with a principal amount of US$565,000,000, (ii) 13% senior notes due 2022 with a principal amount of US$645,000,000, and (iii) 13.75% senior notes due 2023 with a principal amount of US$590,000,000.

On 23 November 2018, Scenery Journey Limited issued an additional US$1,000,000,000 of 11% senior notes due 2020, which formed a single series with the original 11% senior notes due 2020 issued on 6 November 2018.

All of the notes mentioned above are listed and traded on the Singapore Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

ISSUE OF EQUITY SECURITIES UNDER GENERAL MANDATE

On 30 January 2018, the Company and the managers, among others, entered into a subscription agreement (the "Subscription Agreement") under which the Company has issued HK$18 billion 4.25% convertible bonds due 2023 (the "Bonds") to more than six investors who are independent of the Company and its connected persons.

The Bonds may be convertible into 461,656,835 shares of the Company (the "Initial Conversion Shares") at the initial conversion price of HK$38.99 per share (subsequently adjusted to HK$37.05 as a result of dividend payment). The Conversion Shares that may be issued upon the exercise of the conversion right under the Bonds will be issued under the general mandate to issue shares granted to the Directors at the annual general meeting held on 15 June 2017. The Initial Conversion Shares have a nominal value of US$4,616,568.35 and a market value of approximately HK$12,857 million, based on the closing price of the shares at HK$27.85 per share as quote on the Stock Exchange on 30 January 2018, the date of the Subscription Agreement.

The Bonds were issued to enable the Company to raise fund and the net proceeds of approximately HK$17.757 billion were used for refinancing the indebtedness of the Company and for general corporate purposes.

REPORT OF THE BOARD OF DIRECTORS

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

SUBSEQUENT EVENTS

On 25 January 2019, the Company issued (i) additional US$1,100,000,000 7.0% senior notes due 2020 (which were consolidated and form a single series with the US$500,000,000 7.0% senior notes due 2020 issued on 23 March 2017), (ii) additional US$875,000,000 6.25% senior notes due 2021 (which were consolidated and form a single series with the US$598,181,000 6.25% senior notes due 2021 issued on 28 June 2017), and (iii) additional US$1,025,000,000 8.25% senior notes due 2022 (which were consolidated and form a single series with the US$1,000,000,000 8.25% senior notes due 2022 issued on 23 March 2017).

All of the notes are listed and traded on the Singapore Stock Exchange.

On 6 March 2019, Scenery Journey Limited issued 9% senior notes due 2021 with a principal amount of US$600,000,000. The notes are listed and traded on the Singapore Stock Exchange.

FIVE YEARS FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five years is set out on pages 199 to 200.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the law of the Cayman Islands which stipulates that the Company is required to offer Shares to the existing shareholders of the Company any new shares according to their respective shareholding for any fresh issue of shares.

ADEQUATE PUBLIC FLOAT

At the time of listing of the Company in 2009, the Company has applied to the Stock Exchange for a waiver in respect of the public float requirement under Rule 8.08(1)(d) of the Listing Rules. The Stock Exchange has accepted a lower level of public float for the Company at the time of the listing subject to the minimum public float should be the higher of (a) 15%, or (b) such a percentage of shares held by the public immediately after completion of the global offering of the Company, as increased by the shares issued upon the exercise of the over-allotment option under the global offering. As announced by the Company on 27 November 2009 with regard to the exercise of the over-allotment option and the end of the stabilization period for the global offering, the percentage of shares that was held by the public then was 22.04%. As such, the minimum public float requirement that the Company should maintain at all times should be 22.04%.

The Company has maintained adequate public float during the year.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2018. The audit and reporting responsibilities of the Company 's auditor on the financial statements of the Group are set out in the "Independent Auditor's Report" in this annual report. The Company will propose a resolution at the forthcoming AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

For and on behalf of the Board
Hui Ka Yan
Chairman
Hong Kong, 26 March 2019

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Evergrande Group
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Evergrande Group (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 198, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

Independence

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.

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.

Key audit matters identified in our audit are summarised as follows:

- Assessment of net realisable value of properties under development and completed properties held for sale
- Estimated fair value of investment properties
- Estimated fair value of derivative financial liabilities arising from strategy investment in a major subsidiary

Key Audit Matters	How our audit addressed the Key Audit Matters
Assessment of net realisable value of properties under development and completed properties held for sale	
Refer to note 5(a) of critical accounting estimates and judgements, note 10 of properties under development and note 11 of completed properties held for sale to the consolidated financial statements. At 31 December 2018, properties under development ("PUD") and completed properties held for sale ("PHS") totalled RMB1,093,773 million and accounted for approximately 58% of the Group's total assets. PUD and PHS are stated at the lower of cost and net realisable value, write-down of carrying amounts of PUD and PHS to their net realisable value amounted to RMB1,496 million as at 31 December 2018. We focused on this net realisable value assessment because the determination of net realisable values of PUD and PHS involved critical accounting estimates on the selling price, variable selling expenses and estimated costs to completion of PUD.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the internal control over the Group's process in determining the costs to completion of PUD and net realisable values of PUD and PHS based on prevailing market conditions; (ii) As part of our risk assessment in this area, we compared the relevant PUD and PHS balances against the result of management's net realisable value assessment made in the prior years to consider, with hindsight, whether management's net realisable value assessment estimation process had been subject to management bias; (iii) We then challenged the reasonableness of management's key estimates for: • Estimated selling price which is based on the prevailing market conditions, we compared the estimated selling price to the recent market transactions, such as the Group's selling price of the pre-sale units in the same project or the prevailing market price of the comparable properties with similar size, usage and location;

Key Audit Matters	How our audit addressed the Key Audit Matters
	• Estimated variable selling expenses as a percentage of the related estimated selling price of the properties, we compared the above estimated percentage with the actual average selling expenses to revenue ratio of the Group in the current year; and • Estimated costs to completion for PUD, we reconciled the estimated costs to completion to the budgets approved by management and examined, on a sample basis, the signed construction contracts or compared to the actual costs of similar completed properties of the Group. We found that management's estimates on the net realisable value of the Group's PUD and PHS were supported by the available evidence.
Estimated fair value of investment properties	
Refer to note 2(h) of accounting policy of investment properties, note 5(b) of critical accounting estimates and judgements and note 9 of investment properties to the consolidated financial statements. The Group's investment properties were measured at fair value of RMB162,322 million as at 31 December 2018, with net revaluation gains of RMB1,343 million recorded in the consolidated statement of comprehensive income for the year then ended. Independent external valuations were obtained for the whole property portfolio in order to support management's estimates. The valuations of completed investment properties prepared under income capitalisation approach were dependent on certain key assumptions that required significant management judgement, including capitalisation rates, market rent and market price. The valuations of investment properties under construction prepared under residual approach were also dependent upon the estimated costs to completion and anticipated developer's profit margin.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the internal control over the Group's process in determining the fair value of investment properties; (ii) We evaluated the independent external valuers' competence, capabilities and objectivity; (iii) We involved our in-house valuation experts to assess the appropriateness of the income capitalisation approach and residual approach used by the external valuers based on our knowledge of the property industry; and (iv) We checked, on a sample basis, the accuracy and relevance of the input data used, including the capitalisation rates, market rent and market price, to the recent renewal of lease or sale transactions of the Group and of the market. For the estimated costs to completion and anticipated developer's profit margin, we checked to the construction budget and historical information of similar properties of the Group. We found that the key assumptions used in the valuations were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters	How our audit addressed the Key Audit Matters
Estimated fair value of derivative financial liabilities arising from strategy investment in a major subsidiary	
Refer to note 2(m) of accounting policy of financial derivative liabilities, note 5(c) of critical accounting estimates and judgements and note 23(a) of derivative financial liabilities to the consolidated financial statements. Hengda Real Estate Group Limited ("Hengda Real Estate"), a major subsidiary of the Group, has raised three rounds of funding totalling RMB130 billion by way of issuance of new shares to certain strategy investors ("SIs") in 2017. Pursuant to the investment agreements with the SIs, if Hengda Real Estate could not effectively list on the Shenzhen Stock Exchange Limited by the defined dates ("Proposed Reorganisation"), the SIs have the right to request the Group to compensate the SIs with additional shares of Hengda Real Estate equal to 50% of shares held by the. The above share compensation arrangement constitutes an embedded derivative financial liability and was measured at fair value. The Group measured the above derivative financial liability at fair value of RMB2,840 million as at 31 December 2018, with no revaluation gain or loss recognised in profit or loss for the year then ended. Independent external valuation of financial derivative liability was obtained to support management's estimates. The valuation of the derivative financial liability under the Binomial Lattice Model approach was dependent on certain key assumptions that required significant management judgements. These included the fair value of the net identifiable assets of Hengda Real Estate, which mainly consisted of the fair value of PUD, PHS, properties for self-use and investment properties, estimated revenue growth rates and the probability of the Proposed Reorganisation not being completed by the defined date. The valuations of PHS and properties for self-use were prepared under the direct comparison approach making reference to market prices, and the valuations of PUD were prepared under the residual approach using fair market price less estimated costs to completion, anticipated developer's profit margin and selling expenses.	We have performed the following procedures to address this key audit matter: (i) We evaluated the independent external valuer's competence, capabilities and objectivity; (ii) We involved our in-house valuation experts to assess the appropriateness of Binomial Lattice Model approach used by the external valuer based on our knowledge; (iii) We assessed the appropriateness of the key assumptions used in the Binomial Lattice Model approach, including: • checking on a sample basis, the accuracy and relevance of the input data used in the valuations of fair value of PHS, PUD, properties for self-use and investment properties. For PHS, PUD and properties for self-use, we checked the market price used to the recent sale transactions of the Group or prevailing market price of the comparable properties. For PUD, we also checked the estimated costs to completion and anticipated developer's profit margin to the construction budget and historical actual construction costs of similar properties of the Group. For investment properties, we performed the audit procedures stated in the key audit matter of estimated fair value of investment properties; • comparing the revenue growth rates with historical sales performance of the Group; and • assessing the appropriateness of the estimated probability of the Proposed Reorganisation not being completed by the defined date. This included understanding the progress of the Proposed Reorganisation, checking board minutes and materials for application for the Proposed Reorganisation and conducting independent research on the rules, regulations and new implementation guidance issued by the PRC government authorities and publicly available information related to the stock markets in the PRC. We found that the key assumptions used in the valuations were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible 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. We report our opinion solely to you, as a body, 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.

INDEPENDENT AUDITOR'S REPORT

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.

We communicate with those charged with governance 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 those charged with governance 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.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, 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 Yeung Chor Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

CONSOLIDATED BALANCE SHEET

	Note	31 December 2018 RMB million	31 December 2017 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	7	**40,794**	32,898
Land use rights	8	**9,466**	7,935
Investment properties	9	**162,322**	151,950
Goodwill		**1,595**	1,402
Intangible assets		**424**	253
Trade and other receivables	12	**6,029**	4,352
Prepayments	13	**1,677**	1,202
Investments accounted for using equity method	14	**67,046**	30,376
Financial assets at fair value through other comprehensive income	15	**1,570**	—
Financial assets at fair value through profit or loss	16	**8,965**	—
Available-for-sale financial assets		**—**	4,565
Deferred income tax assets	24	**4,389**	3,872
		304,277	238,805
Current assets			
Inventories		**—**	126
Available-for-sale financial assets		**—**	1,520
Properties under development	10	**971,802**	851,363
Completed properties held for sale	11	**121,971**	102,158
Trade and other receivables	12	**123,141**	120,782
Contract costs		**3,587**	—
Prepayments	13	**138,752**	146,923
Income tax recoverable		**11,116**	9,203
Financial assets at fair value through profit or loss	16	**1,173**	3,150
Restricted cash	18	**74,845**	135,714
Cash and cash equivalents	19	**129,364**	152,008
		1,575,751	1,522,947
Total assets		**1,880,028**	1,761,752
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital and premium	20	**1,205**	1,270
Other reserves	21	**65,998**	57,292
Retained earnings		**65,792**	56,210
		132,995	114,772
Non-controlling interests	39	**175,631**	127,436
Total equity		**308,626**	242,208

CONSOLIDATED BALANCE SHEET

	Note	31 December 2018 RMB million	31 December 2017 RMB million
LIABILITIES			
Non-current liabilities			
Borrowings	22	354,857	376,244
Derivative financial liabilities	23	5,647	2,840
Other payables	25	1,543	4,049
Deferred income tax liabilities	24	49,899	51,556
		411,946	434,689
Current liabilities			
Borrowings	22	318,285	356,381
Trade and other payables	25	554,313	399,459
Contract liabilities		185,586	—
Receipt in advance from customers		—	267,555
Current income tax liabilities	26	101,272	61,460
		1,159,456	1,084,855
Total liabilities		1,571,402	1,519,544
Total equity and liabilities		1,880,028	1,761,752

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Hui Ka Yan
Director

Pan Da Rong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 RMB million	2017 RMB million
Revenue	6	**466,196**	311,022
Cost of sales	29	**(297,249)**	(198,760)
Gross profit		**168,947**	112,262
Fair value gains on investment properties, net	9	**1,343**	8,513
Other gains/(losses), net	27	**2,645**	(6,022)
Other income	28	**6,694**	5,547
Selling and marketing costs	29	**(18,086)**	(17,210)
Administrative expenses	29	**(14,813)**	(12,176)
Impairment losses on financial assets		**(137)**	(70)
Other operating expenses	29	**(5,179)**	(5,599)
Operating profit		**141,414**	85,245
Share of (losses)/gains of investments accounted for using equity method	14	**(874)**	1,402
Fair value gains/(losses) on financial assets at fair value through profit or loss	16	**51**	(437)
Fair value gains/(losses) on derivative financial liabilities	22(c)	**797**	(820)
Finance costs, net	31	**(14,623)**	(7,917)
Profit before income tax		**126,765**	77,473
Income tax expenses	32	**(60,218)**	(40,424)
Profit for the year		**66,547**	37,049
Other comprehensive income			
(Item that may be reclassified to profit or loss)			
Change in fair value of available-for-sale financial assets, net of tax		**–**	2,165
Share of other comprehensive income of investments accounted for using the equity method		**81**	2,391
Currency translation differences		**457**	(695)
(Item that may not be reclassified to profit or loss)			
Change in fair value of financial assets at fair value through other comprehensive income, net of tax		**(383)**	–
Other comprehensive income for the year, net of tax		**155**	3,861
Total comprehensive income for the year		**66,702**	40,910
Profit attributable to:			
Shareholders of the Company		**37,390**	24,372
Non-controlling interests		**29,157**	12,677
		66,547	37,049

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2018 RMB million**	2017 RMB million
Total comprehensive income attributable to:			
Shareholders of the Company		**37,502**	27,432
Non-controlling interests		**29,200**	13,478
		66,702	40,910
Earnings per share for profit attributable to shareholders of the Company for the year (expressed in RMB per share)			
— Basic earnings per share	33	**2.849**	1.833
— Diluted earnings per share	33	**2.765**	1.795

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					Non-controlling interests			
	Share capital RMB million	Share premium RMB million	Reserves RMB million	Retained earnings RMB million	Total RMB million	Perpetual capital instruments RMB million	Others RMB million	Sub-total RMB million	Total RMB million
Balance as at 1 January 2017	964	42	4,739	38,495	44,240	112,944	35,348	148,292	192,532
Comprehensive income									
Profit for the year	–	–	–	24,372	24,372	723	11,954	12,677	37,049
Other comprehensive income									
Change in value of available-for-sale financial assets	–	–	1,170	–	1,170	–	995	995	2,165
Share of other comprehensive income of investments accounted for using the equity method	–	–	2,391	–	2,391	–	–	–	2,391
Currency translation differences	–	–	(501)	–	(501)	–	(194)	(194)	(695)
Total comprehensive income	–	–	3,060	24,372	27,432	723	12,755	13,478	40,910
Transactions with owners									
Transfer to statutory reserves	–	–	1,403	(1,403)	–	–	–	–	–
Issuance of shares pursuant to the option scheme (note 20, note 21)	14	623	(139)	–	498	–	–	–	498
Employee share option schemes	–	–	709	–	709	–	–	–	709
Issuance of shares pursuant to the Bonus Warrants	–	–	1	–	1	–	1	1	2
Repurchase of shares (note 20)	(50)	(323)	50	(5,254)	(5,577)	–	–	–	(5,577)
Dividends (note 39)	–	–	–	–	–	–	(241)	(241)	(241)
Decrease of perpetual capital instruments	–	–	–	–	–	(113,667)	–	(113,667)	(113,667)
Changes in ownership interests in subsidiaries without change of control (note 39)	–	–	(11,528)	–	(11,528)	–	(4,520)	(4,520)	(16,048)
Capital injection from non-controlling interests (note 39)	–	–	58,997	–	58,997	–	81,993	81,993	140,990
Non-controlling interests arising from business combination	–	–		–	–	–	1,701	1,701	1,701
Acquisition of subsidiaries (note 39)	–	–	–	–	–	–	406	406	406
Disposal of subsidiaries (note 39)	–	–	–	–	–	–	(7)	(7)	(7)
Total transactions with owners	(36)	300	49,493	(6,657)	43,100	(113,667)	79,333	(34,334)	8,766
Balance as at 31 December 2017	928	342	57,292	56,210	114,772	–	127,436	127,436	242,208

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company					Non-controlling interests	
	Share capital RMB million	Share premium RMB million	Reserves RMB million	Retained earnings RMB million	Total RMB million	Others RMB million	Total RMB million
Balance as at 31 December 2017	928	342	57,292	56,210	114,772	127,436	242,208
Change in accounting policy (note (3)(b))	–	–	82	(616)	(534)	(229)	(763)
Restated balance as at 1 January 2018	928	342	57,374	55,594	114,238	127,207	241,445
Comprehensive income							
Profit for the year	–	–	–	37,390	37,390	29,157	66,547
Other comprehensive income							
Change in value of financial assets at fair value through other comprehensive income, net of tax	–	–	(234)	–	(234)	(149)	(383)
Share of other comprehensive income of investments accounted for using the equity method	–	–	81	–	81	–	81
Currency translation differences	–	–	265	–	265	192	457
Total comprehensive income	–	–	112	37,390	37,502	29,200	66,702
Transactions with owners							
Transfer to statutory reserves	–	–	9,895	(9,895)	–	–	–
Issuance of shares pursuant to the option scheme (note 20, note 21)	7	361	(76)	–	292	–	292
Employee share option schemes	–	–	1,679	–	1,679	532	2,211
Repurchase of shares (note 21)	(11)	(422)	11	(2,495)	(2,917)	–	(2,917)
Dividends (note 34, note 39)	–	–	–	(14,802)	(14,802)	(12,882)	(27,684)
Changes in ownership interests in subsidiaries without change of control (note 39(iii))	–	–	(2,997)	–	(2,997)	(11,510)	(14,507)
Capital injection from non-controlling interests (note 39(i))	–	–	–	–	–	42,071	42,071
Non-controlling interests arising from business combination (note 39, note 40)	–	–	–	–	–	10	10
Acquisition of subsidiaries (note 39(ii))	–	–	–	–	–	1,365	1,365
Disposal of subsidiaries (note 39)	–	–	–	–	–	(362)	(362)
Total transactions with owners	(4)	(61)	8,512	(27,192)	(18,745)	19,224	479
Balance as at 31 December 2018	924	281	65,998	65,792	132,995	175,631	308,626

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 RMB million	2017 RMB million
Cash flows of operating activities			
Net cash generated from/(used in) operations	35	135,347	(79,902)
Income tax paid		(25,510)	(16,999)
Interest paid		(55,088)	(54,072)
Net cash generated from/(used in) operating activities		54,749	(150,973)
Cash flows of investing activities			
Acquisition of subsidiaries, net of cash acquired	40	(9,860)	(37,009)
Purchases of property, plant and equipment and investment properties		(9,594)	(14,369)
Proceeds from disposal of property, plant and equipment, land use rights and intangible assets		314	362
Proceeds from disposal of investment properties		3,083	2,461
Purchase of land use rights		(553)	(373)
Purchase of intangible assets		(203)	(53)
Investment in associates		(17,514)	(1,821)
Investment in joint ventures		(17,199)	(661)
Proceeds from disposal of joint ventures and associates		41	—
Net cash received from disposal of subsidiaries		1,631	3
Purchase of financial assets at fair value through other comprehensive income		(46,308)	—
Proceeds from disposal of financial assets at fair value through other comprehensive income		49,012	—
Purchase of available-for-sale financial assets		—	(67,100)
Proceeds from disposal of available-for-sale financial assets		—	93,516
Dividend received		610	614
Purchase of financial assets at fair value through profit or loss	16	(4,209)	(795)
Proceeds from disposal of financial assets at fair value through profit or loss	16	1,531	811
Repayment from associates		20	433
Repayment from joint ventures		3,907	294
Repayment from non-controlling interests		3,127	1,028
Cash advance to associates		—	(20)
Cash advance to joint ventures		(15,883)	(4,179)
Cash advance to non-controlling interests		(3,837)	(6,736)
Prepayments for acquisition of subsidiaries		(2,363)	(17,966)
Interest received	28	3,884	4,078
Net cash used in investing activities		(60,363)	(47,482)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 RMB million	2017 RMB million
Cash flows of financing activities			
Proceeds from bank and other borrowings	35(b)	**349,068**	481,606
Repayments of bank and other borrowings	35(b)	**(433,010)**	(326,958)
Repayments from PRC corporate bonds	35(b)	**(10,325)**	
Proceeds from senior notes	35(b)	**19,172**	43,019
Repayments of senior notes	35(b)	**—**	(4,458)
Proceeds from convertible bonds	35(b)	**14,385**	—
Repayment to unit holders of consolidated investment entities		**(2,636)**	(1,760)
Redemption of perpetual capital instruments		**—**	(113,667)
Repurchase of shares		**(2,917)**	(5,577)
Issuance of ordinary shares pursuant to share option scheme		**292**	498
Issuance of shares pursuant to the bonus warrants		**—**	2
Dividends paid		**(27,684)**	(241)
Acquisitions of non-controlling interests in subsidiaries		**(14,507)**	(16,048)
Capital injection from non-controlling interests	39	**42,071**	119,192
Repayment to associates		**—**	(450)
Cash advance from joint ventures		**11,203**	485
Repayment to joint ventures		**(484)**	(325)
Cash advance from non-controlling interests		**2,386**	3,178
Repayment made to non-controlling interests		**(11,956)**	(9,407)
Restricted cash pledged for bank borrowings		**46,555**	(14,958)
Deposits for other borrowings		**736**	(1,218)
Net cash (used in)/generated from financing activities		**(17,651)**	152,913
Net decrease cash and cash equivalents		**(23,265)**	(45,542)
Cash and cash equivalents at beginning of year		**152,008**	198,420
Exchange gains/(losses) on cash and cash equivalents		**621**	(870)
Cash and cash equivalents at end of year		**129,364**	152,008

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Evergrande Group (the "Company") was incorporated in the Cayman Islands on 26 June 2006 as an exempted company with limited liability under the Companies Law, Cap. 22 (2009 Revision as consolidated and revised from time to time) of the Cayman Islands and is engaged in investment holding. The Company and its subsidiaries (the "Group") are principally engaged in the property development, property investment, property management, hotel operations, finance business, internet business and health industry business in the People's Republic of China (the "PRC"). The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company had its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 November 2009.

These consolidated financial statements are presented in Renminbi Yuan ("RMB") millions, unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors (the "Board") of the Company on 26 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, available- for-sale financial assets, financial assets at fair value through profit or loss, investment properties and derivative financial liabilities, which are carried at fair value.

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Preparation (Continued)

(i) New standards and amendments to standards adopted by the Group as at 1 January 2018

The following amendments to standards are mandatory for the Group's financial year beginning on 1 January 2018 for the Group:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKFRS 40 (Amendment)	Investments in Investment property
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration

Save for the impact of adoption of HKFRS 9 and HKFRS 15 disclosed in note 3, the adoption of other new and amended standards does not have any significant impact to the results and financial position of the Group.

(ii) New standards and amendments to standards that have been issued but are not effective

HKAS 19 (Amendments)	Employee Benefits[1]
HKAS 28 (Amendments)	Long-term Interests in an Associate or Joint Venture[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 16	Leases[1]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements to 2015–2017 Cycle	Improvements to HKFRS[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKAS 1 and HKAS 8 (Amendments)	Definition of material[2]
HKFRS 17	Insurance Contracts[3]
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture[4]

1 Effective for periods beginning on or after 1 January 2019.
2 Effective for periods beginning on or after 1 January 2020.
3 Effective for periods beginning on or after 1 January 2021.
4 Effective date is to be determined by the International Accounting Standard Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Preparation (Continued)

(ii) New standards and amendments to standards that have been issued but are not effective (Continued)

The Group has already commenced an assessment of the impact of these new or revised standards and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Group, no significant impact on the financial performance and position of the Group is expected when they become effective except for HKFRS 16.

HKFRS 16

The Group is a lessee of certain offices and buildings, which are currently accounted for as operating leases under HKAS 17. Under HKFRS 16, lessees are required to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees. The Group does not expect any significant impact on the financial statements as a lessee.

The accounting for lessors will not significantly change, in addition to some additional disclosures will be required, the Group does not expect any significant impact on the financial statements as a lessor.

The Group is expected to apply the new standard starting from the financial year beginning on 1 January 2019.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Business combinations (Continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed off as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(v) Investments in subsidiaries

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of post-tax loss of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each group entities are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"). The consolidated financial statements are presented in RMB, which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gain and losses that relate to borrowings denominated in foreign currencies are presented in the consolidated statement of comprehensive income within "finance income/(costs), net". All other foreign exchange gain and losses are presented in the consolidated statement of comprehensive income within "Other losses".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign currency translation (Continued)

(iii) Group entities

The results and financial positions of the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities of each balance sheet of the group entities are translated at the closing rate at the date of that balance sheet;

- income and expenses of each income statement of the group entities are translated at average exchange rates; and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into equity holders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 – 30 years
Machinery	5 – 10 years
Transportation equipment	5 – 10 years
Furniture, fitting and equipment	5 – 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains, in the statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property, plant and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(h) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Properties and land use right that are currently being constructed or developed for future use as investment property is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in profit or loss during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in profit or loss.

If an investment property becomes owner-occupied or commences to be further developed for sale, it is reclassified as property, plant and equipment and land use right or properties under development, and its fair value at the date of change in use becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss to the extent the impairment provision previous made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets

(i) Brand name

Brand name acquired in a business combination are recognised at fair value at the acquisition date. Brand name have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brand name over its estimated useful lives less than 10 years.

(ii) Copy rights

Copy rights are acquired and are recognised at historical cost. Copy rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of copy rights over its estimated useful lives less than 10 years.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from three to five years over the expected life of the customer relationship.

(iv) Computer softwares

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to ten years.

(v) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating unit"). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial assets

(i) Classification

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets (Continued)

(iii) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in other income using the effective interest rate method.

- Financial assets at fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at financial assets at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit and loss accounts and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method.

- Financial assets at fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at financial assets at fair value through profit or loss("FVPL"). A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss accounts and is not part of a hedging relationship is recognised in profit or loss and presented as a separate line item in the consolidated statement of comprehensive income within "Fair value gain or loss on financial assets at fair value through profit or loss" in the period in which it arises. Interest income from these financial assets is included in the other income.

(iv) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the profit or loss accounts as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets (Continued)

(v) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other receivables, the Group applies the 12 months expected losses method to assess the expected credit losses. See note 4(a)(iii) for further details.

(vi) Accounting policies applied until 31 December 2017

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

Classification

The Group classifies its financial assets as FVPL, loans and receivables, and available-for-sale financial assets ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *FVPL:* FVPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- *Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

- *AFS:* AFS are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. AFS are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets (Continued)

(vi) Accounting policies applied until 31 December 2017 (Continued)

Recognition and measurement (Continued)

Gains or losses arising from changes in the fair value of the FVPL category are presented in the income statement within "fair value gain or loss on financial assets at fair value through profit or loss" in the period in which they arise. Dividend income from FVPL is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss.

Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Group's right to receive payments is established.

Impairment of financial assets

- Assets carried at amortised cost

  The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

  Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

  For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets (Continued)

(vi) Accounting policies applied until 31 December 2017 (Continued)

Impairment of financial assets (Continued)

- Assets classified as available for sale

  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. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(m) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The subsequent changes in fair value is recognised immediately in profit or loss within "fair value gains or losses on derivative financial instruments".

(n) Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Development cost of property comprises mainly construction costs, cost of land use rights, borrowing costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless those will not be realised in one normal operating cycle.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Completed properties held for sale

Completed properties remaining unsold at the end of each relevant year are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the estimated selling price in the ordinary course of business, less applicable estimated selling expenses to make the sale.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(q) Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(r) Cash and cash equivalents

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks, other short-term high liquidity investment with original maturities of three months or less.

Bank deposits which are restricted to use are classified as “restricted cash”. Restricted cash are excluded from cash and cash equivalents in the cash flow statements.

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company’s share (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company’s equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company’s equity holders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

(u) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid to the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that part or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the respective balance sheet date.

(v) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include interest expense, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associate and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for its associate, only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated at a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong, which is a defined contribution retirement scheme. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Share-based payments

The Group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments ("options") of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

(i) including any market performance conditions (for example, an entity's share price);

(ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

(iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The options granted by the Company over its equity instruments to the employees of subsidiary undertakings in the Group are treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(z) Provisions and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Provisions and contingent liabilities (Continued)

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(aa) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discount and after eliminated sales with the group entities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probably that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Sales of properties

Revenue are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the 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, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised 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.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Revenue recognition (Continued)

(ii) Property management

Revenue arising from property management is recognised in the accounting period in which the services are rendered.

(iii) Construction services

For construction services, the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

(iv) Hotel operations

Hotel revenue from room rentals, food and beverage sales and other ancillary services are recognised when the goods are delivered or services are rendered.

(v) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(vi) Rental income

Rental income of property leasing under operating leases is recognised on a straight-line basis over the lease terms.

(vii) Income from medical cosmetology and health management

Income from medical cosmetology and health management are recognised when the services have been rendered to customers. The period of these services rendered is usually within a day.

(viii) Accounting policies applied until 31 December 2017

The group has applied HKFRS 15 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probably that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Revenue recognition (Continued)

(viii) Accounting policies applied until 31 December 2017 (Continued)

Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. To the extent that the Group has to perform further work on the properties already delivered to the purchasers, the relevant expenses shall be recognised simultaneously. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the balance sheets under current liabilities.

Property management

Revenue arising from property management is recognised in the accounting period in which the services are rendered, using a straight-line basis over the term of the contract.

Construction and decoration services

Revenue arising from construction and decoration service is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Hotel operations

Hotel revenue from room rentals, food and beverage sales and other ancillary services are recognised when the goods are delivered or services are rendered.

(ab) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

Land use rights under operating lease, which mainly comprised land use rights to be developed for hotel properties and self-use buildings, are stated at cost and subsequently amortised in the consolidated statement of comprehensive income on a straight-line basis over the operating lease periods, less accumulated impairment provision.

(iii) The Group is the lessor

Assets leased out under operating leases are included in investment properties in the balance sheets.

(ac) Dividend distribution

Dividend distribution to the equity holders of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the equity holders or the board of directors, where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ad) Financial guarantee liabilities

Financial guarantee liabilities are recognised in respect of the financial guarantee provided by the Group to the banks for property purchasers.

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. After initial recognition, such liabilities are measured at the higher of the present value of the best estimate of the expenditure required to settle the present obligation and the amount initially recognised less cumulative amortisation of fees recognised.

Financial guarantee liabilities are derecognised from the balance sheet when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

(b) HKFRS 9 Financial Instruments — Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments on the equity of the Group as at 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments — Impact of adoption (Continued)

The effects of the adoption of HKFRS 9 are as follows:

Classification and measurement of financial instruments

The adjustments to the Group's equity due to classification and measurement of financial instruments as at 1 January 2018 is as follows:

At 1 January 2018	Reserves RMB million	Retained earnings RMB million	Non-controlling interests RMB million	Total RMB million
Opening balance — HKAS 39	57,292	56,210	127,436	240,938
Increase in provision for trade and other receivables, net of tax	—	(534)	(229)	(763)
— Increase in provision for trade and other receivables (note 4(a)(iii))	—	(712)	(305)	(1,017)
— Increase in deferred tax assets relating to impairment provisions	—	178	76	254
Reclassify from available-for-sale investments to financial assets at fair value through profit or loss	82	(82)	—	—
Opening balance — HKFRS 9	57,374	55,594	127,207	240,175

Management has assessed the business models and the contractual terms of the cash flows apply to the financial assets held by the Group at the date of initial application of HKFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate HKFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

At 1 January 2018	AFS RMB million	FVOCI RMB million	FVPL RMB million	Other receivables RMB million
Opening balance — HKAS 39	6,085	—	—	—
Reclassify listed equity securities from AFS to FVOCI	(2,362)	2,362	—	—
Reclassify listed equity securities from AFS to FVPL	(279)	—	279	—
Reclassify unlisted equity securities from AFS to FVOCI	(1,278)	1,278	—	—
Reclassify unlisted investments from AFS to FVOCI	(2,146)	2,146	—	—
Reclassify unlisted investments from AFS to other receivables	(20)	—	—	20
Opening balance — HKFRS 9	—	5,786	279	20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments — Impact of adoption (Continued)

Classification and measurement of financial instruments (Continued)

The main effects resulting from this reclassification on the Group's equity is as follows:

At 1 January 2018	AFS reserve RMB million	FVOCI reserve RMB million	Retained earnings RMB million
Opening balance — HKAS 39	(838)	—	—
Reclassify listed equity securities from AFS to FVOCI	733	(733)	—
Reclassify listed equity securities from AFS to FVPL	82	—	(82)
Reclassify unlisted equity securities from AFS to FVOCI	6	(6)	—
Reclassify unlisted investments from AFS to FVOCI	17	(17)	—
Opening balance — HKFRS 9	—	(756)	(82)

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities except for derivative financial instruments. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets

The Group has two types of financial assets at amortised cost subject to new expected credit loss model of HKFRS 9:

- Trade receivables
- Other receivables

The Group revised its impairment methodology under HKFRS 9 for each of these classes of assets.

(i) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

RMB108 million was recognised in retained earnings as at 1 January 2018 for those trade receivables whose credit risk has been assessed as other than low and for which the impairment methodology described in note 4(a)(iii) has been applied. Note 4(a)(iii) reconciles the loss allowance as at 1 January 2018 to that at the end of the reporting period.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments — Impact of adoption (Continued)

Impairment of financial assets (Continued)

(ii) Other receivables

Other receivables at amortised cost include other receivables from third parties and related parties. The Group has assessed that the expected credit losses for these receivables under the 12 months expected losses method.

RMB909 million was recognised in retained earnings as at 1 January 2018 for those other receivables whose credit risk has been assessed as other than low and for which the impairment methodology described in note 4(a)(iii) has been applied. Note 4(a)(iii) reconciles the loss allowance as at 1 January 2018 to that at the end of the reporting period.

(c) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18 "Revenue" and HKAS 11 "Construction contracts" that relate to the recognition, classification and measurement of revenue and costs.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies.

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

Presentation of assets and liabilities related to contracts with customers

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- The incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, such as sales commissions, are capitalised as contract costs.

- Contract liabilities for progress billing recognised in relation to property development activities were previously presented as advanced receipt in advance from customers.

Accounting for sales of properties

Under HKFRS 15, for properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress.

For the year ended 31 December 2018, the Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Thus, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition for sales of properties.

Accounting for significant financing component

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price and the amount of revenue from the sales of completed properties is adjusted for the effects of a financing component, if significant. For the year ended 31 December 2018, the Group has assessed and considered that the financing component effect is insignificant.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15 Revenue from Contracts with Customers — Impact of adoption (Continued)

Accounting for costs incurred to obtain a contract

Under HKFRS 15, costs such as stamp duty and sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in contract costs.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factor

The Group's major financial instruments include cash and bank deposits, trade and other receivables, FVOCI, AFS, FVPL, trade and other payables, derivative financial liabilities and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of sales proceeds and borrowings are denominated in other currencies. As at 31 December 2018, the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the respective balance sheet dates are as follows:

	31 December	
	2018	2017
	RMB million	RMB million
Monetary assets		
— HK$	**5,145**	6,810
— US$	**17,819**	3,811
— EURO	**14**	2
— Others	**344**	412
	23,322	11,035
Monetary liabilities		
— HK$	**37,219**	30,453
— US$	**112,175**	145,977
— EURO	**—**	15,559
	149,394	191,989

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(i) *Foreign exchange risk (Continued)*

The following table shows the sensitivity analysis of a 5% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. If there is a 5% increase/decrease in RMB against the relevant currencies, the effect of increase/(decrease) in the profit for the year is as follows:

	31 December	
	2018 **RMB million**	2017 RMB million
5% appreciation in RMB against HK$	**1,203**	887
5% depreciation in RMB against HK$	**(1,203)**	(887)
5% appreciation in RMB against US$	**3,538**	5,331
5% depreciation in RMB against US$	**(3,538)**	(5,331)
5% appreciation in RMB against EUR$	**(1)**	583
5% depreciation in RMB against EUR$	**1**	(583)

(ii) *Interest rate risk*

The Group's interest-bearing assets and liabilities are mainly restricted cash, cash and cash equivalents and borrowings. The Group's exposure to changes in interest rates is mainly attributable to its long term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

As at 31 December 2018, if interest rate on borrowings at variable rates had been 100 basis point higher/lower with all variables held constant, post-tax profit for the year ended 31 December 2018 would decrease/increase by approximately RMB915 million (2017: decrease/increase by approximately RMB 779 million), mainly as a result of more/less interest expenses on borrowings at variable rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) *Credit risk*

The Group is exposed to credit risk in relation to its trade and other receivables and cash deposits with bank.

The carrying amounts of trade and other receivables, restricted cash and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash transactions are limited to high-credit-quality institutions. Deposits are only placed with reputable banks.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(iii) Credit risk (Continued)

The Group has policies in place to ensure that credit sales are made to customers with an sufficient financial strength and appropriate percentage of down payment. The Group closely monitors the collection of progress payments from customers in accordance with payment schedule agreed with customers and follow up action is taken to recover overdue debts, if any.

Meanwhile, the Group has the right to cancel the contracts once repayment from the customers is in default; it also has monitoring procedures to ensure that follow-up actions are taken to recover overdue balances. In addition, the Group regularly reviews the recoverable amount of each individual trade and other receivables to ensure that adequate impairment provisions are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

The Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties for an amount up to 70% of the total purchase price of the property. Detailed disclosure of these guarantees is made in note 37. If a purchaser defaults on the payment of its mortgage loan during the guarantee period, the bank holding the guarantee may demand the Group to repay the outstanding principal of the loan and any interest accrued thereon. Under such circumstances, the Group is able to retain the customer's deposit and resell the property to recover the amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

For financial assets originated from 1 January 2018, the following credit risk modelling applies:

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(iii) Credit risk (Continued)

- significant increases in credit risk on other financial instruments of the same borrower

- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

Trade receivables and contract assets

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days of initial recognition.

The loss allowance provision of trade receivables as at 31 December 2018 is determined as follows, the expected credit losses below also incorporate forward looking information.

	Current	Within 180 days past due	More than 180 days past due	More than 365 days past due	Total
Trade receivables					
Expected loss rate	0.1%	5.0%	10.0%	15.0%	
Gross carrying amount	36,171	374	226	642	37,413
Loss allowance provision	36	19	23	96	174

Other receivables

Other financial assets at amortised cost include other receivables from third parties and related parties. The Group has assessed that the expected credit losses for these receivables under the 12 months expected losses method.

Management considered other receivables from third parties and related parties to be low credit risk as they have a low risk of default and a strong capacity to meet its contractual cash flow obligations in the near term.

The expected loss rate of other receivables which are deposit in nature, such as deposits for acquisition of land use right, construction projects and borrowings, is assessed to be near to zero and no loss allowance provision is made for these deposits during the period.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(iii) *Credit risk (Continued)*

Other receivables (Continued)

To measure the expected credit losses of other receivables other than deposits, other receivables excluding deposits have been grouped based on shared credit risk characteristics and the days past due.

Loss allowance provision movement

As at 31 December 2018, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables RMB million	**Other receivables** RMB million	**Total** RMB million
Balance as at 31 December 2017 (under HKAS 39)	31	527	558
Amounts restated through opening retained earnings	108	909	1,017
Balance as at 1 January 2018 (under HKFRS 9)	139	1,436	1,575
Provision for loss allowance recognised in profit or loss for the period	35	102	137
Balance as at 31 December 2018 (under HKFRS 9)	174	1,538	1,712

(iv) *Liquidity risk*

Management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including proceeds from pre-sale of properties, committed credit facilities and short-term and long-term borrowings to meet its construction commitments. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and through having available sources of financing.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(iv) *Liquidity risk (Continued)*

To cope with the rapid expansion of the Group's businesses, the Group raised significant amounts of borrowings during the year ended 31 December 2018. As at 31 December 2018, the Group's total borrowings stood at RMB673,142 million. During the year ended 31 December 2018 and the period up to the date of these consolidated financial statements, in order to properly manage the Group's liquidity risk and capital structure, the Group has conducted the following major financing activities:

— On 14 February 2018, the Group issued five-year convertible bonds with an aggregated principal amount of HK$18,000 million at the face value. (note 22(c)).

— On 6 November 2018, the Group issued 11.00% two-year senior notes with an aggregated principal amount of US$565 million at the face value, 13.0% four-year senior notes with an aggregated principal amount of US$645 million at the face value, and 13.75% five-year senior notes with an aggregated principal amount of US$590 million at the face value (note 22(a)).

— On 19 November 2018, the Group issued 11.00% two-year senior notes with an aggregated principal amount of US$1,000 million at the face value (note 22(a)).

— On 25 January 2019, the Group issued 7.0%, one-year senior notes with an aggregated principal amount of US$1,100 million at the face value, 6.25%, two-year senior notes with an aggregated principal amount of US$875 million at the face value and 8.25%, three-year senior notes with an aggregated principal amount of US$1,025 million at the face value.

— On 1 March 2019, the Group issued 9.0%, two-year senior notes with an aggregated principal amount of US$600 million at the face value.

— During the year, the Group obtained capital contribution from non-controlling interest totaling RMB42,071 million.

Except for the aforementioned recent developments, the Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include control on investment in land reserve, adjusting project development timetable to adapt the changing local real estate market environment, implementing cost control measures, promotion of sales of completed properties, accelerating sales with more flexible pricing. The Group will pursue such options based on its assessment of relevant future costs and benefits.

With the aforementioned activities and plans, the directors of the Company considered the Group's liquidity risk has been controlled. The directors of the Company has reviewed the working capital forecast of the Group for the 12 months from 31 December 2018 and are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months from the date of the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factor (Continued)

(iv) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscount cash flows.

	Less than 1 year RMB million	Between 1 and 2 years RMB million	Between 2 and 5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2018					
Borrowings	363,339	204,889	151,069	51,934	771,231
Trade and other payables*	533,511	1,800	–	–	535,311
	896,850	206,689	151,069	51,934	1,306,542
At 31 December 2017					
Borrowings	406,176	207,439	166,247	53,702	833,564
Trade and other payables*	391,563	4,170	–	–	395,733
	797,739	211,609	166,247	53,702	1,229,297

* Excluding staff welfare benefit payable and other taxes payable.

The amounts have not included financial guarantee contracts:

— which the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties (note 36). Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties;

— which the Group makes for its cooperation parties and joint ventures' bank borrowings (note 36). Such guarantees terminate upon the repayment of relevant bank borrowings.

The Group considers that it is more likely than not that no amount will be payable under the arrangement.

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity owners, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets, as shown in the consolidated balance sheets.

The gearing ratios as at 31 December 2018 and 2017 were as follows:

	31 December	
	2018	2017
	RMB million	RMB million
Total borrowings (Note 22)	**673,142**	732,625
Total assets	**1,880,028**	1,761,752
Gearing ratio	**35.8%**	41.6%

(c) Fair value estimation

(i) The different levels of fair value estimation have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets and financial liabilities that are measured at fair value:

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
At 31 December 2018				
Assets				
FVOCI	633	—	937	1,570
FVPL	1,173	—	8,965	10,138
Total assets	1,806	—	9,902	11,708
Liabilities				
Derivative financial liabilities	—	2,807	2,840	5,647
At 31 December 2017				
Assets				
AFS	2,641	2,424	1,020	6,085
FVPL	3,150	—	—	3,150
Total assets	5,791	2,424	1,020	9,235
Liabilities				
Derivative financial liabilities	—	—	2,840	2,840

The nominal value less impairment provisions of trade and other receivables and the nominal value of trade and other payables approximate their fair value due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements used in preparing the financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their recoverable amounts based on the realisability of these properties, taking into account estimated costs to completion based on past experience and committed contracts and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

The Group estimates property construction cost upon recognition of respective costs of sales. Such estimates are substantiated by detailed budgetary information as developed by the management, and will be assessed periodically, as the constructions progress. Should these estimates depart from their actual finalised costs, such differences would affect the accuracy of costs of sales recognised.

(b) Estimated fair value of investment properties

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

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

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(iv) estimated costs to completion and anticipated developer's profit margin, derived from the construction budget and historical information of similar properties.

The Group assesses the fair value of its investment properties based on valuations determined by independent and professional qualified valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

(c) Estimated fair value of financial derivative liability of share compensation arrangement

The Group assesses the fair value of its financial derivative liability by reference to valuation performed by the independent and professional qualified valuer. Binomial Lattice Model approach is used for valuation of the fair value of financial derivative liability and it is dependent on certain key assumptions that required significant management judgement. These include the fair value of properties under development, completed properties held for sale, properties for self-use and investment properties, the revenue growth rates and the probability of Proposed Reorganisation (note 23(a)) not being completed by the defined date. The valuation of completed properties held for sale and properties for self-use were prepared under the direct comparison approach making reference to fair market prices, and the valuation of properties under development was prepared under the residual approach using fair market price less estimated costs to completion, anticipated developer's profit margin and selling expenses. Detailed disclosure of the valuation of investment properties is made in note 5(a).

The change of the aforesaid key assumptions may lead to significant difference of the fair value estimation of financial liability.

(d) PRC corporate income taxes and deferred taxation

The Group's subsidiaries that operate in the PRC are subject to income tax in the PRC. Judgement is required in determining the provision for income tax and withholding tax on unremitted earnings of PRC subsidiaries. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters (including the effect of change in the dividend policies of PRC subsidiaries) is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(e) PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of LAT varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with local tax authorities in the PRC for most of its property projects. Accordingly, judgement is required in determining the amount of the land appreciation taxes. The Group recognised these land appreciation taxes based on management's best estimates according to the interpretation of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and tax provisions in the periods in which such taxes have been finalised with local tax authorities.

6 SEGMENT INFORMATION

The chief operating decision-maker ("CODM") of the Group has been identified as the executive directors of the Company who are responsible for reviewing the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: property development, property investment, property management and other businesses. Other businesses mainly include hotel operations, internet business, health industry business and investment business. As the CODM of the Group considers most of the revenue and results of the Group are attributable to the market in the PRC, and only an immaterial part (less than 10%) of the Group's assets are located outside the PRC, no geographical segment information is presented.

The directors of the Company assess the performance of the operating segments based on a measure of segment results. Fair value gains or losses on FVPL, fair value gains or losses on derivative financial liabilities, dividend income of FVOCI/AFS, gains or losses on disposal of FVOCI/AFS and finance cost and income are not included in the result for each operating segment.

Revenue for the year ended 31 December 2018 consists of sales of properties, rental income of investment properties, income from property management services and income from other businesses, which are set out below:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Sales of properties	**452,764**	302,384
Rental income	**1,178**	811
Property management services	**4,067**	3,024
Other businesses	**8,187**	4,803
	466,196	311,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (Continued)

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2018 are as follows:

	Property development RMB million	Property investment RMB million	Property management services RMB million	Other businesses RMB million	Group RMB million
Gross segment revenue	452,764	1,510	5,710	34,871	494,855
Inter-segment revenue	—	(332)	(1,643)	(26,684)	(28,659)
Revenue	452,764	1,178	4,067	8,187	466,196
Revenue from contracts with customers					
— Recognised at a point in time	452,764	—	—	5,227	457,991
— Recognised over time	—	—	4,067	2,960	7,027
Revenue from other sources					
— Rental income	—	1,178	—	—	1,178
Share of post-tax profits of associates	163	—	—	93	256
Share of post-tax losses of joint ventures	(337)	—	—	(793)	(1,130)
Segment results	139,347	2,528	712	(1,910)	140,677
Impairment losses on financial assets					(137)
Gains on FVPL					51
Gains on derivative financial liabilities					797
Finance costs, net					(14,623)
Profit before income tax					126,765
Income tax expenses					(60,218)
Profit for the year					66,547
Depreciation and amortisation	1,216	—	14	1,383	2,613
Fair value gains on investment properties	—	1,343	—	—	1,343

6 SEGMENT INFORMATION (Continued)

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2017 are as follows:

	Property development RMB million	Property investment RMB million	Property management services RMB million	Other businesses RMB million	Group RMB million
Gross segment revenue	302,384	1,019	4,395	25,712	333,510
Inter-segment revenue	—	(208)	(1,371)	(20,909)	(22,488)
Revenue	302,384	811	3,024	4,803	311,022
Share of post-tax profits of associates	4	—	—	1,198	1,202
Share of post-tax profits of joint ventures	26	—	—	174	200
Segment results	83,496	9,353	559	66	93,474
Fair value loss on financial assets at fair value through profit or loss					(437)
Fair value loss on derivative financial liabilities					(820)
Dividend income of financial assets at fair value through profit or loss					364
Loss on disposal of available-for-sale financial assets					(7,191)
Finance costs					(7,917)
Profit before income tax					77,473
Income tax expense					(40,424)
Profit for the year					37,049
Depreciation and amortisation	1,097	—	12	885	1,994
Fair value gains on investment properties	—	8,513	—	—	8,513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (Continued)

Segment assets and liabilities as at 31 December 2018 are as follows:

	Property development RMB million	Property investment RMB million	Property management services RMB million	Other businesses RMB million	Group RMB million
Segment assets	1,602,712	162,322	2,868	84,913	1,852,815
Unallocated assets					27,213
Total assets					1,880,028
Segment assets include:					
Interest in associates	2,256	–	–	29,447	31,703
Interest in joint ventures	14,816	–	–	20,527	35,343
Segment liabilities	700,634	–	4,214	36,594	741,442
Unallocated liabilities					829,960
Total liabilities					1,571,402
Capital expenditure	212	12,241	25	11,721	24,199

Segment assets and liabilities as at 31 December 2017 are as follows:

	Property development RMB million	Property investment RMB million	Property management services RMB million	Other businesses RMB million	Group RMB million
Segment assets	1,492,472	151,950	2,816	92,204	1,739,442
Unallocated assets					22,310
Total assets					1,761,752
Segment assets include:					
Interest in associates	1,943	–	–	11,429	13,372
Interest in joint ventures	874	–	–	16,130	17,004
Segment liabilities	617,493	–	2,556	51,014	671,063
Unallocated liabilities					848,481
Total liabilities					1,519,544
Capital expenditure	3,645	15,689	24	6,169	25,527

6 SEGMENT INFORMATION (Continued)

Sales between segments are carried out at agreed terms amongst relevant parties. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

Segment assets consist primarily of property, plant and equipment, investment properties, land use rights, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They exclude deferred tax assets, income tax recoverable, FVOCI, AFS and FVPL.

Segment liabilities consist of operating liabilities. Unallocated liabilities comprise taxation, borrowings and derivative financial liabilities.

Capital expenditure comprises additions to property, plant and equipment, investment properties, land use rights and intangible assets.

Reportable segments' assets are reconciled to total assets as follows:

	31 December	
	2018 **RMB million**	2017 RMB million
Segment assets	**1,852,815**	1,739,442
Unallocated:		
Income tax recoverable	**11,116**	9,203
Deferred income tax assets	**4,389**	3,872
FVOCI	**1,570**	—
AFS	**—**	6,085
FVPL	**10,138**	3,150
Total assets per consolidated balance sheet	**1,880,028**	1,761,752

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December	
	2018 **RMB million**	2017 RMB million
Segment liabilities	**741,442**	671,063
Unallocated:		
Current income tax liabilities	**101,272**	61,460
Deferred income tax liabilities	**49,899**	51,556
Borrowings	**673,142**	732,625
Derivative financial liabilities	**5,647**	2,840
Total liabilities per consolidated balance sheet	**1,571,402**	1,519,544

No material revenues are derived from any single external customer (2017: none).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB million	Machinery RMB million	Transportation equipment RMB million	Furniture, Fitting and equipment RMB million	Construction in progress RMB million	Total RMB million
Year ended 31 December 2017						
Opening net book amount	11,328	578	957	3,310	4,660	20,833
Additions	568	312	727	1,815	5,635	9,057
Acquisition of subsidiaries	203	10	8	88	—	309
Transfers	2,342	82	—	731	(3,155)	—
Transfer from properties under development	—	—	—	—	3,503	3,503
Transfer from investment properties	1,329	—	—	—	—	1,329
Disposals	(269)	(1)	(26)	(65)	—	(361)
Depreciation	(730)	(123)	(209)	(710)	—	(1,772)
Closing net book amount	14,771	858	1,457	5,169	10,643	32,898
At 31 December 2017						
Cost	17,279	1,104	2,500	7,993	10,643	39,519
Accumulated depreciation	(2,508)	(246)	(1,043)	(2,824)	—	(6,621)
Net book amount	14,771	858	1,457	5,169	10,643	32,898
Year ended 31 December 2018						
Opening net book amount	**14,771**	**858**	**1,457**	**5,169**	**10,643**	**32,898**
Additions	**1,176**	**226**	**131**	**406**	**3,041**	**4,980**
Acquisition of subsidiaries (note 40)	**1,686**	**1**	**23**	**4**	**—**	**1,714**
Transfers	**1,109**	**15**	**—**	**373**	**(1,497)**	**—**
Transfer from properties under development	**—**	**—**	**—**	**—**	**3,712**	**3,712**
Disposals	**(31)**	**(77)**	**(57)**	**(225)**	**—**	**(390)**
Depreciation	**(858)**	**(90)**	**(280)**	**(892)**	**—**	**(2,120)**
Closing net book amount	**17,853**	**933**	**1,274**	**4,835**	**15,899**	**40,794**
At 31 December 2018						
Cost	**21,124**	**1,266**	**2,525**	**8,505**	**15,899**	**49,319**
Accumulated depreciation	**(3,271)**	**(333)**	**(1,251)**	**(3,670)**	**—**	**(8,525)**
Net book amount	**17,853**	**933**	**1,274**	**4,835**	**15,899**	**40,794**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation charge of the Group was included in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2018 **RMB million**	2017 RMB million
Cost of sales	**656**	655
Selling and marketing costs	**266**	214
Administrative expenses	**1,198**	904
	2,120	1,772

During the year ended 31 December 2018, the Group capitalised borrowing costs amounting to RMB822 million (2017: RMB595 million) on the construction in progress. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 8.11% (2016: 8.09%).

As at 31 December 2018, property, plant and equipment of RMB5,042 million (2017: RMB11,146 million) were pledged as collateral for the Group's bank borrowings (note 22).

8 LAND USE RIGHTS

Land use rights are related to properties outside Hong Kong, held on leases of over 40 years:

	Year ended 31 December	
	2018 **RMB million**	2017 RMB million
Opening net book amount	**7,935**	5,401
Additions	**553**	373
Transfer from properties under development	**1,244**	2,320
Acquisition of subsidiaries	**—**	11
Amortisation	**(266)**	(170)
Closing net book amount	**9,466**	7,935

Land use rights comprise cost of acquiring rights to use certain land, which are principally located in the PRC, for hotel buildings, self-use buildings and self-operating properties over fixed periods.

As at 31 December 2018, land use rights of RMB1,373 million (2017: RMB1,576 million) were pledged as collateral for the Group's bank borrowings (note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Opening net book amount	**151,950**	132,045
Additions	**12,241**	15,689
Acquisition of subsidiaries (note 40)	**37**	—
Disposals	**(2,977)**	(2,293)
Disposals of subsidiaries	**(807)**	—
Transfer to property, plant and equipment	**—**	(1,329)
Fair value gains on investment properties, net	**1,343**	8,513
Currency translation differences	**535**	(675)
Closing net book amount	**162,322**	151,950
Comprise of:		
Completed	**135,709**	131,188
Under construction	**26,613**	20,762

As at 31 December 2018, investment properties of RMB13,003 million (2017: RMB14,264 million) were pledged as collateral for the Group's borrowings (note 22).

Borrowing costs of RMB1,928 million (2017: RMB1,204 million) have been capitalised in investment properties under construction for the year ended 31 December 2018. The capitalisation rate of borrowing costs for the year ended 31 December 2018 was 8.11% (2017: 8.09%).

(a) Valuation processes of the Group

The Group measures its investment properties at fair value. The fair value of the Group's investment properties has been determined on the basis of valuation carried out by an independent and professionally qualified valuer.

Discussions of valuation processes and results are held between the management and the valuer at least once every six months, in line with the Group's interim and annual reporting dates.

(b) Valuation techniques

Valuations were based on either:

(i) direct comparison approach is adopted assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

(ii) income approach takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property.

9 INVESTMENT PROPERTIES (Continued)

(b) Valuation techniques (Continued)

(iii) residual method of valuation which is commonly used in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on construction costs, professional fees, contingency, marketing and legal cost, and interest payments to be incurred, anticipated developer's profits, as well as land acquisition costs.

There were no changes to the valuation techniques during the year.

(c) Information about fair value measurements using significant unobservable inputs (level 3)

	Property category	Fair value as at 31 December 2018	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Completed investment properties	Commercial properties	**12,933**	Income capitalisation	Terminal yield	4.00%–5.75%
				Reversionary yield	4.00%–5.75%
				Capitalisation rates	4.00%–5.75%
				Expected vacancy rate	0.00%–15.00%
				Monthly rental (RMB/square meter/month)	35–740
		72,746	Direct comparison	Market price (RMB/square meter)	3,121–150,000
	Car park	**50,030**	Direct comparison	Market price (RMB/per car park)	60,000–530,000
Investment properties under construction	Commercial properties	**24,406**	Residual method	Market price (RMB/square meter)	4,500–57,700
				Budgeted cost (RMB/square meter)	959–18,249
				Anticipated developer's profit margin	5.00%–15.00%
	Car park	**2,207**	Residual method	Market price (RMB/per car park)	99,000–161,700
				Budgeted cost (RMB/square meter)	476–2,371
				Anticipated developer's profit margin	2.00%–10.00%

9 INVESTMENT PROPERTIES (Continued)

(c) Information about fair value measurements using significant unobservable inputs (level 3) (Continued)

	Property category	Fair value as at 31 December 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Completed investment properties	Commercial properties	10,080	Income capitalisation	Terminal yield	4.25%–6.50%
				Reversionary yield	4.50%–6.50%
				Capitalisation rates	4.50%–6.50%
				Expected vacancy rates	0.00%–20.00%
				Monthly rental (RMB/ square meter/month)	31–670
		66,656	Direct comparison	Market price (RMB/ square meter)	3,356–160,000
	Car park	54,473	Direct comparison	Market price (RMB/ per car park)	50,000–530,000
Investment properties under construction	Commercial properties	17,681	Residual method	Market price (RMB/ square meter)	4,600–54,400
				Budgeted cost (RMB/ square meter)	974–16,652
				Anticipated developer's profit margin	2.00%–20.00%
	Car park	3,060	Residual method	Market price (RMB/ per car park)	99,000–164,100
				Budgeted cost (RMB/ square meter)	487–2,546
				Anticipated developer's profit margin	2.00%–15.00%

9 INVESTMENT PROPERTIES (Continued)

(c) Information about fair value measurements using significant unobservable inputs (level 3) (Continued)

Relationship of unobservable inputs to fair value:

- The higher terminal and reversionary yield, the lower fair value;
- The higher capitalisation rate, the lower fair value;
- The higher expected vacancy, the lower fair value;
- The higher monthly rental, the higher fair value;
- The higher market price, the higher fair value;
- The higher budgeted construction cost to be incurred, the lower fair value;
- The higher the anticipated developer's profit margin, the lower fair value.

(d) The following amounts have been recognised in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Rental income	**1,178**	811
Direct operating expenses arising from investment properties that generate rental income	**(99)**	(76)

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	31 December	
	2018	2017
	RMB million	RMB million
Not later than one year	**1,340**	344
Later than one year and not later than five years	**868**	881
Later than five years	**666**	622
	2,874	1,847

During the years ended 31 December 2018 and 2017, the investment properties are mainly located in the PRC and have lease periods less than 20 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 PROPERTIES UNDER DEVELOPMENT

	31 December	
	2018	2017
	RMB million	RMB million
Properties under development expected to be completed with one operating cycle included under current assets	**971,802**	851,363
Properties under development comprise:		
— Construction costs and capitalised expenditures	**369,218**	288,236
— Interests capitalised	**104,341**	79,693
— Land use rights	**498,243**	483,434
	971,802	851,363

All the properties under development are expected to be completed within one operating cycle.

The properties under development include costs of acquiring rights to use certain lands, which are located in the PRC, for property development over fixed periods. Land use rights are held on leases of between 40 to 70 years.

As at 31 December 2018, properties under development of approximately RMB337,228 million (2017: RMB323,269 million) were pledged as collateral for the Group's borrowings (note 22).

The capitalisation rate of borrowing costs for the year ended 31 December 2018 is 8.11% (2017: 8.09%).

11 COMPLETED PROPERTIES HELD FOR SALE

All completed properties held for sale are located in the PRC.

As at 31 December 2018, completed properties held for sale of approximately RMB14,408 million (2017: RMB14,146 million) were pledged as collateral for the Group's borrowings (note 22).

12 TRADE AND OTHER RECEIVABLES

	31 December 2018 RMB million	31 December 2017 RMB million
Trade receivables (a)	**37,239**	27,406
Other receivables (b)	**91,931**	97,728
	129,170	125,134
Less: non-current portion of trade receivables and other receivables	**(6,029)**	(4,352)
Current portion	**123,141**	120,782

(a) Trade receivables

	31 December 2018 RMB million	31 December 2017 RMB million
Trade receivables	**37,413**	27,437
Less: allowance provision for impairment	**(174)**	(31)
Trade receivables — net	**37,239**	27,406
Less: non-current portion	**(4,722)**	(4,352)
Current portion	**32,517**	23,054

During the year ended 31 December 2018, loss of provision of RMB35 million (2017: RMB23 million) was made against the gross amount of trade receivables (note 4(a)(iii)).

Trade receivables mainly arose from sales of properties. Proceeds in respect of sales of properties are to be received in accordance with the terms of the related sales and purchase agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables (Continued)

The ageing analysis of trade receivables based on revenue recognition date as at the respective balance sheet dates is as follows:

	31 December 2018 RMB million	31 December 2017 RMB million
Within 90 days	**22,339**	6,500
Over 90 days and within 180 days	**3,023**	4,039
Over 180 days and within 365 days	**4,193**	4,477
Over 365 days	**7,858**	12,390
	37,413	27,406

The maximum exposure to credit risk at each balance sheet date is the carrying value of each class of receivables mentioned above. The Group has retained the legal titles of the properties sold to these customers before the trade receivables are settled.

(b) Other receivables

	31 December 2018 RMB million	31 December 2017 RMB million
Other receivables		
— associates (note 38(b))	**—**	20
— joint ventures (note 38(b))	**17,470**	5,494
— non-controlling interests (note (a))	**10,060**	9,350
— loans to third parties facilitated through internet finance platform (note (b))	**10,862**	40,043
— third parties (note (c))	**55,077**	43,348
	93,469	98,255
Less: allowance provision for impairment	**(1,538)**	(527)
Other receivables — net	**91,931**	97,728
Less: non-current portion	**(1,307)**	—
Other receivables — net	**90,624**	97,728

12 TRADE AND OTHER RECEIVABLES (Continued)

(b) Other receivables (Continued)

(a) Amounts are unsecured, interest free and repayable on demand.

(b) Amounts represented loans to certain third parties which were facilitated through the internet finance platform.

(c) Amounts mainly represented the deposits for acquisition of land use rights, deposits for construction projects and borrowings, receivables of cooperation parties.

As at 31 December 2018, impairment provision of RMB102 million (2017: RMB47 million) was made against the gross amount of other receivables (note 4(a)(iii)).

The carrying amounts of the Group's other receivables are denominated in RMB.

The maximum exposure to credit risk at each balance sheet date is the carrying value of each class of receivables mentioned above.

As at 31 December 2018 and 2017, the fair value of trade and other receivables approximated their carrying amounts.

13 PREPAYMENTS

	31 December	
	2018 RMB million	2017 RMB million
Prepaid value added taxes and other taxes	**13,436**	10,906
Prepayments and advances to third parties	**126,993**	137,219
— for acquisition of land use rights	**97,556**	104,674
— for acquisition of subsidiaries	**25,371**	27,065
— others	**4,066**	5,480
	140,429	148,125
Less: non-current portion		
— prepayments for acquisition of property, plant and equipment	**(1,677)**	(1,202)
	138,752	146,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	31 December	
	2018 RMB million	2017 RMB million
Associates	**31,703**	13,372
Joint ventures	**35,343**	17,004
	67,046	30,376

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Share of profits of associates	**256**	1,202
Share of (losses)/profits of joint ventures	**(1,130)**	200
	(874)	1,402

(a) Investments in associates

The movements of the investments in associates are as follows:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Balance as at 1 January	**13,372**	10,684
Additions	**30,290**	1,821
— Smart King Limited (note a)	**13,044**	—
— others (note b)	**17,246**	1,821
Disposals	**(11,989)**	(43)
— Smart King Limited (note a)	**(11,986)**	—
— others	**(3)**	(43)
Dividend declared	**(226)**	(250)
Share of post-tax profits/(losses) of associates	**256**	1,202
— Smart King Limited (note a)	**(1,058)**	—
— others	**1,314**	1,202
Other comprehensive loss	**—**	(42)
Balance as at 31 December	**31,703**	13,372

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(a) Investments in associates (Continued)

Note (a): The Group acquired 45% equity interest of Smart King Limited at a consideration of US$ 2,000 million (equivalent to approximately RMB13,044 million), of which RMB5,688 million was paid in July 2018. Smart King Limited is engaged in the research, development and production of battery electric vehicle. After certain arbitrations and litigations and as per the restructuring agreement on 31 December 2018, the Group owns 32% of preference shares of Smart King Limited with a call option granted to the original shareholder exercisable for a period within the next five years. The investment was reclassified to financial assets at fair value through profit or loss at RMB3,980 million. The Group recognised a share of post-tax loss of RMB1,058 million and disposal loss of RMB138 million, respectively.

Note (b): The Group acquired 40.964% equity interest of Xinjiang Guanghui Industry Investment (Group) Co., Ltd ("Guanghui Group") at a consideration of RMB14,034 million in October 2018. Guanghui Group is engaged in the automobile sales, energy development, logistics services and property development in the PRC.

Set out below is the summarised financial information for the associates that is material to the Group.

(i) *Shengjing Bank Co., Ltd*

Shengjing Bank Co., Ltd ("Shengjing Bank") is principally engaged in banking services in the PRC including provision of corporate and personal deposits, loans and advances, settlements, treasury businesses and etc.

The Group held 17.28% equity interest of Shengjing Bank.

Summarised balance sheet

	31 December	
	2018 RMB million	2017 RMB million
Cash and balances with central bank	**97,574**	84,202
Other assets	**894,540**	955,528
Total assets	**992,114**	1,039,730
Financial liabilities	**924,710**	963,083
Other liabilities	**3,693**	17,016
Total liabilities	**928,403**	980,099
Net assets	**63,711**	59,631
Net assets attributable to:		
Shareholders of the Shengjing Bank	**63,140**	59,057
Non-controlling interests	**571**	574
	63,711	59,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(a) Investments in associates (Continued)

(i) *Shengjing Bank Co., Ltd (Continued)*

Summarised statement of comprehensive income

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Interest income	**42,805**	42,278
Interest expenses	**(30,388)**	(30,202)
Profit before tax	**5,539**	7,579
Income tax expense	**(413)**	(655)
Profit for the year	**5,126**	6,924
Other comprehensive loss	**–**	(244)
Total comprehensive income	**5,126**	6,680
Total comprehensive income attributable to:		
Shareholders of the Shengjing Bank	**5,129**	6,686
Non-controlling interests	**(3)**	(6)
	5,126	6,680

Reconciliation of summarised financial information

	31 December	
	2018 RMB million	2017 RMB million
Net assets as at 1 January	**59,057**	53,820
Profit for the year	**5,126**	6,930
Other comprehensive loss	**–**	(244)
Dividend	**(1,043)**	(1,449)
Net assets as at 31 December	**63,140**	59,057
Interest in the associate	**10,911**	10,205
Goodwill	**1,210**	1,210
Carrying value	**12,121**	11,415

There are no contingent liabilities or commitment relating to the Group's interest in the associates.

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(b) Investments in joint ventures

The movements of the interests in joint ventures are as follows:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Balance as at 1 January	**17,004**	13,690
Additions (note a)	**19,541**	681
Dividend declared	**(115)**	—
Disposals	**(38)**	—
Share of post-tax (losses)/profits of joint ventures	**(1,130)**	200
Other comprehensive income	**81**	2,433
Balance as at 31 December	**35,343**	17,004

Note (a): The additions during the year mainly included the investments in a number of property development companies newly established.

Set out below is the summarised financial information for the joint venture that is material to the Group.

(i) *Evergrande Life Insurance Co., Ltd.*

Evergrande Life Insurance Co., Ltd. ("Evergrande Life Insurance") is engaged in insurance business, including life insurance, health insurance and etc. The Group made additional capital injections of RMB 3,000 million and RMB 9,000 million to Evergrande Life Insurance in 2015 and 2016, respectively. Pursuant to the resolutions of shareholders' meeting of Evergrande Life Insurance, all shareholders agreed that the additional capital injections by the Group are only attributable to the Group and other shareholders will not share the capital surplus.

The Group held 50% equity interest of Evergrande Life Insurance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(b) Investments in joint ventures (Continued)

(i) *Evergrande Life Insurance Co., Ltd.* *(Continued)*

Summarised consolidated balance sheet

	31 December	
	2018	2017
	RMB million	RMB million
Cash and cash equivalents	**2,797**	2,451
Other assets	**122,591**	106,734
Total assets	**125,388**	109,185
Financial liabilities (excluding insurance liabilities)	**2,360**	250
Other liabilities (including insurance liabilities)	**103,114**	90,709
Total liabilities	**105,474**	90,959
Net assets	**19,914**	18,226
Net assets attributable to:		
Shareholders of the Evergrande Life Insurance	**19,906**	18,217
Non-controlling interests	**8**	9
	19,914	18,226

14 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(b) Investments in joint ventures (Continued)

(i) *Evergrande Life Insurance Co., Ltd.* *(Continued)*

Summarised consolidated statement of comprehensive income

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Revenue	**36,196**	31,901
Profit before tax	**1,572**	883
Income tax expenses	**(6)**	(8)
Profit for the year	**1,566**	875
Other comprehensive income	**123**	2,433
Total comprehensive income	**1,689**	3,308
Total comprehensive income attributable to:		
Shareholders of the Evergrande Life Insurance	**1,689**	3,308
Non-controlling interests	**—**	—
	1,689	3,308

Reconciliation of summarised financial information

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Net assets as at 1 January	**18,217**	14,909
Profit for the year	**1,566**	875
Other comprehensive income	**123**	2,433
Net assets as at 31 December	**19,906**	18,217
Interest in the Joint Venture	**15,958**	15,094
Goodwill	**879**	879
Carrying value	**16,837**	15,973

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Year ended 31 December 2018 RMB million
Balance as at 1 January	–
Reclassified from AFS (note 3(b))	5,786
Additions	46,308
Disposals	(50,012)
Net fair value losses recognised in equity	(512)
Balance as at 31 December	1,570

FVOCI include the following:

	Year ended 31 December 2018 RMB million
Listed equity securities	633
Unlisted equity investments	937
	1,570

As at 31 December, FVOCI are denominated in US$ and RMB.

There were no impairment provisions on FVOCI made during the year ended 31 December 2018 (2017: nil).

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Balance as at 1 January	**3,150**	3,603
Reclassified from AFS (note 3(b))	**279**	—
Additions	**8,189**	795
— Smart King Limited (note (14)(a))	**3,980**	—
— Others	**4,209**	795
Fair value gains/(losses)	**51**	(437)
Disposals	**(1,531)**	(811)
Balance as at 31 December	**10,138**	3,150
Less: non-current portion	**(8,965)**	—
	1,173	3,150

FVPL include the following:

	31 December	
	2018	2017
	RMB million	RMB million
Listed equity securities	**1,173**	3,150
Unlisted equity investments	**8,965**	—
	10,138	3,150

As at 31 December 2018 and 2017, the listed equity securities of FVPL represented the Group's equity investments in certain companies listed on the Shanghai Stock Exchange Limited (the "Shanghai Stock Exchange"), the Shenzhen Stock Exchange Limited (the "Shenzhen Stock Exchange")and the Stock Exchange, which are quoted in an active market.

As at 31 December 2018, the unlisted equity investments of FVPL represented the Group's equity investment in certain high technology and media companies, and the fair value of these investments has been determined by reference to the valuation carried out by independent and professionally qualified valuers.

Changes in fair values of these investments are recorded in "Fair value losses on financial assets at fair value through profit or loss" in the consolidated statement of comprehensive income.

17 FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per consolidated balance sheet

	31 December	
	2018	2017
	RMB million	RMB million
At amortised cost		
Loans and receivables		
— Trade and other receivables	**129,170**	125,134
— Restricted cash	**108,684**	135,714
— Cash and cash equivalents	**95,525**	152,008
	333,379	412,856
At fair value		
— FVPL	**10,138**	3,150
— FVOCI	**1,570**	—
— AFS	**—**	6,085
	345,087	422,091

Liabilities as per consolidated balance sheet

	31 December	
	2018	2017
	RMB million	RMB million
At amortised cost		
Other financial liabilities		
— Borrowings	**673,142**	732,625
— Trade and other payables excluding other taxes and payroll payable	**534,825**	393,056
	1,207,967	1,125,681
At fair value		
— Derivative financial liabilities	**5,647**	2,840
	1,213,614	1,128,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 RESTRICTED CASH

The restricted cash is denominated in the following currencies:

	31 December	
	2018	2017
	RMB million	RMB million
— Denominated in RMB	**74,326**	135,587
— Denominated in other currencies	**519**	127
	74,845	135,714

The Group's restricted cash mainly comprised of guarantee deposits for construction of projects and guarantee deposits for bank acceptance notes and loans.

The conversion of the RMB denominated bank balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

19 CASH AND CASH EQUIVALENTS

	31 December	
	2018	2017
	RMB million	RMB million
Cash at bank and in hand:		
— Denominated in RMB	**119,258**	144,809
— Denominated in other currencies	**10,106**	7,199
	129,364	152,008

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

Cash at banks earns interest at floating daily bank deposit rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary share	Share premium	Total
		US$	RMB million	RMB million	RMB million
As at 1 January 2017	13,694,887,900	136,948,879	964	42	1,006
Issuance of shares pursuant to the option scheme	196,344,000	1,963,440	14	623	637
Repurchase of shares	(722,972,000)	(7,229,720)	(50)	(323)	(373)
As at 31 December 2017	13,168,259,900	131,682,599	928	342	1,270
As at 1 January 2018	**13,168,259,900**	**131,682,599**	**928**	**342**	**1,270**
Issuance of shares pursuant to the option scheme	**110,332,000**	**1,103,320**	**7**	**361**	**368**
Repurchase of shares (note a)	**(160,528,000)**	**(1,605,280)**	**(11)**	**(422)**	**(433)**
As at 31 December 2018	**13,118,063,900**	**131,180,639**	**924**	**281**	**1,205**

(a) During the year ended 31 December 2018, the Company repurchased an aggregate of 160,528,000 shares of its own shares through the Stock Exchange, at a total consideration of HK$ 3,361 million (equivalent to approximately RMB 2,917 million). The aforesaid repurchased shares were cancelled on 13 August 2018.

21 RESERVES

	Merger reserve RMB million (note (a))	Other reserves RMB million	Statutory reserves RMB million (note (b))	Employee share option reserve RMB million (note (c))	Capital redemption reserve RMB million	Translation reserves RMB million	Total RMB million
Balance at 1 January 2017	(986)	(6,041)	10,360	328	243	835	4,739
Revaluation of available-for-sale financial assets, net of tax	–	1,170	–	–	–	–	1,170
Retained earnings appropriated to statutory reserves	–	–	1,403	–	–	–	1,403
Capital injection from non-controlling interests	–	58,997	–	–	–	–	58,997
Changes in ownership interests in subsidiaries without change of control	–	(11,528)	–	–	–	–	(11,528)
Issuance of shares pursuant to the option scheme	–	–	–	(139)	–	–	(139)
Employee share option scheme (note (c))	–	–	–	709	–	–	709
Issuance of shares pursuant to the Bonus Warrants	–	–	–	1	–	–	1
Repurchase of shares	–	–	–	–	50	–	50
Share of other comprehensive income of investments accounted for using the equity method	–	2,391	–	–	–	–	2,391
Currency translation differences	–	–	–	–	–	(501)	(501)
Balance at 31 December 2017	(986)	44,989	11,763	899	293	334	57,292
Balance at 1 January 2018	(986)	44,989	11,763	899	293	334	57,292
Change in accounting policy (note 3(b))	–	82	–	–	–	–	82
Restated balance at 1 January 2018	(986)	45,071	11,763	899	293	334	57,374
Revaluation of FVOCI	–	(234)	–	–	–	–	(234)
Retained earnings appropriated to statutory reserves	–	–	9,895	–	–	–	9,895
Changes in ownership interests in subsidiaries without change of control	–	(2,997)	–	–	–	–	(2,997)
Issuance of shares pursuant to the option scheme	–	–	–	(76)	–	–	(76)
Employee share option scheme (note (c))	–	–	–	1,679	–	–	1,679
Repurchase of shares	–	–	–	–	11	–	11
Share of other comprehensive income of investments accounted for using the equity method	–	81	–	–	–	–	81
Currency translation differences	–		–	–	–	265	265
Balance at 31 December 2018	(986)	41,921	21,658	2,502	304	599	65,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 RESERVES (Continued)

(a) Merger reserve

The merger reserve represents the aggregate nominal value of the share capital/paid-in capital of the subsidiaries acquired by the Company less considerations paid and payable to the then shareholders of the Group during the reorganisation undertaken in 2006 for preparing listing of the Company on the Stock Exchange.

(b) Statutory reserves

Pursuant to the relevant rules and regulation concerning foreign investment enterprise established in the PRC and the articles of association of certain PRC subsidiaries of the Group, those subsidiaries are required to transfer an amount of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to equity holders in form of bonus issue.

(c) Employee share option reserve

Share options are granted to directors and other selected employees. Options are conditional on the employee have served the Group for certain periods (the vesting period). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

On 18 May 2010, 713,000,000 share options (the "2010 Options") were granted to directors and employees with an exercise price of HK$2.4 per share. All the options granted will be exercisable within 5 years after vesting.

On 9 October 2014, 530,000,000 share options (the "2014 Options") were granted to directors and employees with an exercise price of HK$3.05 per share. All the options granted will be exercisable within 5 years after vesting.

On 6 October 2017, 743,570,000 share options (the "2017 Option") were granted to directors and employees with an exercise price of HK$30.2 per share. All the options granted will be exercisable within 5 years after vesting.

Movements of share options are as follows:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Balance at 1 January	**986,736,000**	484,650,000
Granted during the year	**—**	743,570,000
Exercised during the year	**(110,332,000)**	(196,344,000)
Lapsed during the year	**(83,430,000)**	(45,140,000)
Balance at 31 December	**792,974,000**	986,736,000

21 RESERVES (Continued)

(c) Employee share option reserve (Continued)

Particulars of share options as at 31 December 2018 and 2017 are as follows:

Date of grant	Vesting period	Exercise period	Exercise price	Number of outstanding shares as at 31 December 2018	2017
2010 Options:					
18 May 2010	5 years	18 May 2015–17 May 2020	HK$2.4	**1,285,000**	3,726,000
2014 Options:					
9 October 2014	1 year	9 October 2015–8 October 2020	HK$3.05	**–**	–
9 October 2014	2 year	9 October 2016–8 October 2021	HK$3.05	**–**	–
9 October 2014	3 year	9 October 2017–8 October 2022	HK$3.05	**–**	84,020,000
9 October 2014	4 year	9 October 2018–8 October 2023	HK$3.05	**68,009,000**	86,880,000
9 October 2014	5 year	9 October 2019–8 October 2024	HK$3.05	**86,880,000**	86,880,000
2017 Options:					
6 October 2017	1 year	6 October 2018–5 October 2023	HK$30.20	**56,616,000**	145,046,000
6 October 2017	2 year	6 October 2019–5 October 2024	HK$30.20	**145,046,000**	145,046,000
6 October 2017	3 year	6 October 2020–5 October 2025	HK$30.20	**145,046,000**	145,046,000
6 October 2017	4 year	6 October 2021–5 October 2026	HK$30.20	**145,046,000**	145,046,000
6 October 2017	5 year	6 October 2022–5 October 2027	HK$30.20	**145,046,000**	145,046,000
				792,974,000	986,736,000

The weighted average fair value of the aforesaid options granted were determined by reference to valuation prepared by independent valuers, using the Binomial Model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 BORROWINGS

	31 December 2018 RMB million	31 December 2017 RMB million
Borrowings included in non-current liabilities:		
Senior notes (note a)	**79,912**	57,682
PRC corporate bonds (note b)	**43,666**	53,863
Convertible bonds (note c)	**12,704**	—
Other borrowings (note d)	**223,493**	273,759
Bank borrowings (note e)	**196,650**	210,913
	556,425	596,217
Less: current portion of non-current borrowings	**(201,568)**	(219,973)
	354,857	376,244
Borrowings included in current liabilities:		
Bank borrowings	**59,423**	87,555
Current portion of non-current borrowings	**201,568**	219,973
— PRC corporate bonds (note (b))	**26,510**	36,482
— Other borrowings (note (d))	**112,952**	105,463
— Bank borrowings (note (e))	**62,106**	78,028
Other borrowings	**57,294**	48,853
	318,285	356,381
Total borrowings	**673,142**	732,625
The total borrowings are denominated in the following currencies:		
RMB	**529,669**	598,945
US dollar	**110,075**	88,295
HK dollar	**33,398**	29,826
EURO	**—**	15,559
	673,142	732,625

22 BORROWINGS (Continued)

(a) Senior notes

	31 December 2017 US$ million	New issuance US$ million	31 December 2018 US$ million
Par value			
2017 issued 2021 Notes	598	—	598
2017 issued 2023 Notes	1,345	—	1,345
2017 issued 2025 Notes	4,681	—	4,681
2017 issued 2020 Notes	500	—	500
2017 issued 2022 Notes	1,000	—	1,000
2017 issued 2024 Notes	1,000	—	1,000
2018 issued 2020 Notes	—	1,565	1,565
2018 issued 2022 Notes	—	645	645
2018 issued 2023 Notes	—	590	590
Total	9,124	2,800	11,924
Unrecognised financing charges	(283)		(281)
Amortised cost — US$	8,841		11,642
Amortised cost — RMB	57,682		79,912

On 28 June 2017, the Company issued 6.25%, four-year senior notes with an aggregated principal amount of US$598 million (equivalent to approximately RMB4,078 million) at 100% of the face value ("2017 issued 2021 Notes"), 7.5%, six-year senior notes with an aggregated principal amount of US$1,345 million (equivalent to approximately RMB9,172 million) at 100% of the face value ("2017 issued 2023 Notes") and 8.75%, eight-year senior notes with an aggregated principal amount of US$4,681 million (equivalent to approximately RMB31,921 million) at 100% of the face value ("2017 issued 2025 Note").

On 6 November 2018 and 19 November 2018, the Group has issued 11.00% two-year senior notes with aggregated principal amount of US$565 million (equivalent to approximately RMB3,874 million) and US$1,000 million (equivalent to approximately RMB6,838 million), respectively, at 100% of the face value ("2018 issued 2020 Notes").

On 6 November 2018 the Group has issued 13.0% four-year senior notes with an aggregated principal amount of US$645 million (equivalent to approximately RMB4,419 million) at 100% of the face value ("2018 issued 2022 Notes"), and 13.75% five-year senior notes with an aggregated principal amount of US$590 million (equivalent to approximately RMB4,042 million) at 100% of the face value ("2018 issued 2023 Notes").

The above senior notes are jointly guaranteed by certain subsidiaries and secured by pledges of the shares of these subsidiaries.

22 BORROWINGS (Continued)

(b) PRC corporate bonds

On 19 June 2015, a subsidiary of the Company issued 5.38%, five-year public PRC corporate bonds ("PRC bonds") with an aggregated principal amount of RMB5,000 million at 100% of the face value. The Group has repaid RMB 2,976 million of the bonds in June 2018.

On 7 July 2015, a subsidiary of the Company issued 5.30%, four-year public PRC bonds with an aggregated principal amount of RMB6,800 million and 6.98%, seven-year PRC bonds with an aggregated principal amount of RMB8,200 million at 100% of the face value.

On 16 October 2015, a subsidiary of the Company issued 7.38%, five-year non-public PRC bonds with an aggregated principal amount of RMB17,500 million and 7.88%, five-year PRC bonds with an aggregated principal amount of RMB2,500 million at 100% of the face value. The Group has repaid RMB 777 million of the bonds in October 2018.

On 12 January 2016, a subsidiary of the Company issued 6.98%, four-year non-public PRC bonds with an aggregated principal amount of RMB10,000 million at 100% of the face value. The Group has repaid RMB 5,482 million of the bonds in January 2018.

On 29 July 2016, a subsidiary of the Company issued 6.80%, there-year non-public PRC bonds with an aggregated principal amount of RMB4,200 million at 100% of the face value. The Group has repaid RMB 1,090 million of the bonds in July 2018.

Except for the PRC corporate bonds amounting to RMB2,500 million issued on 16 October 2015, other PRC corporate bonds contain the early redemption options.

Early redemption options are regarded as embedded derivatives not closely related to the host contract. The directors consider that the fair value of the early redemption options was insignificant as at 31 December 2018 and 2017.

(c) Convertible bonds

On 30 January 2018, the Company entered into the Subscription Agreement with certain investment banks, pursuant to which the investment banks have agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the convertible bonds (the "Convertible bonds") in an aggregate principal amount of HK$18,000 million at the face value.

The Convertible bonds will be mature in five years from the issuance date with an interest rate of 4.25% per annum, and can be convertible to ordinary shares of the Company at the holder's option at the conversion price of HK$38.99 per share during the period from 27 March 2018 to the seventh day prior to the Bonds' maturity date.

On 14 February 2018 (the "issuance Day"), the Group received the net proceeds from issuance of the Convertible Bonds of HK$17,736 million (equivalent to RMB14,383 million).

22 BORROWINGS (Continued)

(c) Convertible bonds (Continued)

The Convertible bonds was recognised as embedded financial derivatives and debt component as follows:

- Embedded financial derivatives, comprise the fair value of the option of the holders of the Convertible bonds to convert the Convertible bonds into ordinary shares of the Company at the conversion price; the fair value of the option of the holders of the Convertible bonds to require the Company to redeem the Convertible bonds; and the fair value of the option of the Company to redeem the Convertible bonds. These embedded options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative was recognised.

- Debt component initially recognised at the residual amount after deducting the fair value of the derivative component from the net proceeds at the initial recognition, and is subsequently carried at amortised cost.

A valuation on the embedded derivatives of the Convertible bonds has been performed by an independent qualified valuer on 31 December 2018, the binomial model is used in the valuation of the embedded financial derivatives. A fair value gain of RMB797 million was recognised in profit and loss for the year ended 31 December 2018.

(d) Other borrowings

Certain group companies in the PRC which are engaged in development of real estate projects have entered into fund arrangements with certain financial institutions (the "Trustees"), respectively, pursuant to which Trustees raised trust funds and injected the funds to the group companies. All the funds bear fixed interest rates and have fixed repayment terms.

As at 31 December 2018, the Group's other borrowings of RMB217,914 million (2017: RMB279,099 million) were secured by pledge of the Group's property, plant and equipment, land use rights, investment properties, properties under development, completed properties held for sale, cash in bank, intangible assets, account receivables and equity interest of certain subsidiaries, totaling RMB303,642 million (2017: RMB266,605 million).

(e) Bank borrowings

As at 31 December 2018, the Group's bank borrowings of RMB240,665 million (2017: RMB258,572 million) were secured by pledge of the Group's property, plant and equipment, land use rights, investment properties, properties under development, completed properties held for sale, cash in bank, intangible asset, account receivables and equity interests of certain subsidiaries, totalling RMB262,669 million (2017: RMB331,453 million).

The exposure of the bank and other borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less RMB million	6–12 months RMB million	1–5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2018	128,022	228,261	275,019	41,840	673,142
At 31 December 2017	148,347	260,586	278,952	44,740	732,625

22 BORROWINGS (Continued)

(e) Bank borrowings (Continued)

The maturity of the borrowings is as follows:

	31 December 2018 RMB million	31 December 2017 RMB million
Bank borrowings, other borrowings, senior notes and PRC bonds:		
Within 1 year	**318,285**	356,381
1–2 years	**181,454**	184,875
2–5 years	**128,047**	145,519
Over 5 years	**45,356**	45,850
	673,142	732,625

The effective interest rates were as follows:

	31 December 2018		31 December 2017	
	RMB million	Effective weighted average rate	RMB million	Effective weighted average rate
Bank and other borrowings	**536,860**	**7.99%**	621,080	7.62%
Senior notes	**79,912**	**8.99%**	57,682	8.33%
PRC bonds	**43,666**	**7.50%**	53,863	7.18%
Convertible bonds	**12,704**	**10.71%**	—	—

(f) The carrying amounts and fair value of the non-current borrowings are as follows:

	31 December 2018		31 December 2017	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Bank and other borrowings	**420,143**	**420,143**	301,181	301,181
Senior notes	**79,912**	**71,879**	57,682	61,852
PRC bonds — public	**16,948**	**20,174**	14,905	15,013
PRC bonds — non-public	**26,718**	**26,718**	2,476	2,476
Convertible bonds	**12,704**	**10,572**	—	—

The fair value of the Group's bank borrowings, other borrowings and non-public PRC bonds approximates their carrying amounts at each of the balance sheet date for the reason that the impact of discounting is not significant or the borrowings carry floating rate of interests.

22 BORROWINGS (Continued)

(f) The carrying amounts and fair value of the non-current borrowings are as follows: (Continued)

The fair values of senior notes as at 31 December 2018 are determined directly by references to the price quotations published by the Singapore Exchange Limited and The Hong Kong Exchanges and Clearing Limited on 31 December 2018, the last dealing date of 2018.

The fair value of the public PRC bonds at 31 December 2018 are determined directly by references to the price quotations published by The Shanghai Stock Exchange and Shenzhen Stock Exchange on 31 December 2018, the last dealing date of 2018.

23 DERIVATIVE FINANCIAL LIABILITIES

	31 December	
	2018 **RMB million**	2017 RMB million
Embedded financial derivatives of share compensation arrangement (note (a))	**2,840**	2,840
Embedded financial derivatives of convertible bonds (note 22(c))	**2,807**	—
	5,647	2,840

(a) On 3 October 2016, Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate", an indirectly wholly-owned PRC subsidiary of the Company) and Hengda Real Estate Group Company Limited ("Hengda Real Estate", a wholly-owned PRC subsidiary of Kailong Real Estate), entered into a cooperation agreement with Shenzhen Special Economic Zone Real Estate and Properties (Group) Co. Ltd. ("Shenzhen Real Estate", a company listed on the Shenzhen Stock Exchange) and Shenzhen Investment Holding Co. Ltd. (the controlling shareholder of Shenzhen Real Estate). Pursuant to the agreement, the four parties agreed to work towards entering into a reorganisation agreement under which Shenzhen Real Estate will acquire 100% of the equity interest in Hengda Real Estate from Kailong Real Estate by way of issue of Renminbi ordinary shares (A shares) and/or the payment of cash consideration to Kailong Real Estate, which will result in Kailong Real Estate becoming the controlling shareholder of Shenzhen Real Estate and thereby enabling the Group to effectively list its real estate related business on the Shenzhen Stock Exchange (the "Proposed Reorganisation").

On 30 December 2016, Kailong Real Estate and Hengda Real Estate entered into the First Round Investment Agreements with certain strategy investors (the "First Round SIs"), pursuant to which the First Round SIs agreed to inject capital of RMB30,000 million to Hengda Real Estate. The amount of capital injection was subsequently revised to RMB30,500 million on 31 March 2017. On 31 May 2017, Kailong Real Estate and Hengda Real Estate entered into the Second Round Investment Agreements with certain strategy investors (the "Second Round SIs"), pursuant to which the Second Round SIs agreed to inject capital of RMB39,500 million to Hengda Real Estate. Up to 1 June 2017, total capital contributions of RMB70,000 million have been received by Hengda Real Estate in full.

23 DERIVATIVE FINANCIAL LIABILITIES (Continued)

(a) (Continued)

On 6 November 2017, Kailong Real Estate, Hengda Real Estate and Professor Hui Ka Yan entered into the Third Round Investment Agreements with certain strategy investors (the "Third Round SIs"), pursuant to which the Third Round SIs agreed to inject capital of RMB60,000 million to Hengda Real Estate. The capital contributions of RMB60,000 million have been received by Hengda Real Estate on 7 November 2017.

Kailong Real Estate, Hengda Real Estate, Professor Hui Ka Yan and the First Round SIs and the Second Round SIs have further entered into an amendment agreement (the "Amendment Agreement") on 28 June 2017. Pursuant to the First Round Investment Agreements, the Second Round Investment Agreements, the Amendment Agreement and the Third Round Investment Agreements, if the Proposed Reorganisation cannot be completed by 31 January 2020 (for the First and Second Round SIs) or 31 January 2021 (for the Third Round SIs) respectively, the SIs have right to:

(i) request Kailong Real Estate to repurchase the SIs' equity interest in Hengda Real Estate at their original investment costs; Kailong Real Estate has the option of electing not to repurchase such equity interest, in such event, Professor Hui Ka Yan should repurchase SIs' equity interest at its original investment cost; or

(ii) request Kailong Real Estate to compensate the SIs additional shares of Hengda Real Estate equal to 50% of the shares held by the SIs before compensation.

The above share compensation arrangement constitutes an embedded derivative and has been recognised as a financial derivative liability. The fair value of financial derivative liability was determined by reference to valuation prepared by an independent valuer, using the Binomial Lattice Model approach.

24 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts of deferred tax assets and liabilities of the Group are as follows:

	31 December	
	2018 RMB million	2017 RMB million
Deferred income tax assets to be recovered within 12 months	**(2,479)**	(2,704)
Deferred income tax assets to be recovered after more than 12 months	**(1,910)**	(1,168)
Deferred income tax assets	**(4,389)**	(3,872)
Deferred income tax liabilities to be settled within 12 months	**4,715**	5,692
Deferred income tax liabilities to be settled after more than 12 months	**45,184**	45,864
Deferred income tax liabilities	**49,899**	51,556
	45,510	47,684

The net movements on the deferred taxation are as follows:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
At 1 January	**47,684**	34,388
Change in accounting policy (note 3(b))	**(254)**	
Acquisition of subsidiaries (note 40)	**2,586**	13,627
Tax charged relating to components of other comprehensive income	**(128)**	722
Disposal of subsidiaries	**(1,079)**	—
Recognised in income tax expenses (note 32)	**(3,299)**	(1,053)
At 31 December	**45,510**	47,684

24 DEFERRED INCOME TAX (Continued)

Movements in gross deferred tax assets and liabilities are as follows:

Deferred income tax assets

	Temporary difference on unrealised profit of intercompany transactions RMB million	Tax losses RMB million	Temporary difference on recognition of cost of sales and expenses RMB million	Revaluation of financial assets RMB million	Carrying amount of land use right smaller than the tax bases RMB million	Bad debt provision and write-down of properties held for sale RMB million	Total RMB million
As at 1 January 2017	(667)	(1,785)	(609)	(1,255)	(80)	(240)	(4,636)
Charged to other comprehensive income	–	–	–	947	–	–	947
Credited to the income tax expenses	(1,297)	(95)	(571)	–	25	(158)	(2,096)
As at 31 December 2017	(1,964)	(1,880)	(1,180)	(308)	(55)	(398)	(5,785)
As at 1 January 2018	(1,964)	(1,880)	(1,180)	(308)	(55)	(398)	(5,785)
Change in accounting policy (note 3(b))	–	–	–	–	–	(254)	(254)
Disposal of subsidiaries	–	–	32	–	–	–	32
Charged to other comprehensive income	–	–	–	(119)	–	–	(119)
Credited to the income tax expenses	(412)	(1,008)	(149)	–	18	(150)	(1,701)
As at 31 December 2018	(2,376)	(2,888)	(1,297)	(427)	(37)	(802)	(7,827)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through future taxable profits is probable. As at 31 December 2018, the Group did not recognise deferred tax assets of RMB5,613 million (2017: RMB4,171 million) in respect of tax losses amounting to RMB22,453 million (2017: RMB16,684 million) in certain subsidiaries as the future profit streams of these subsidiaries are uncertain. These tax losses will expire in the following years:

Year	RMB million
2019	690
2020	570
2021	1,861
2022	12,388
2023	6,944
	22,453

24 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Excess of carrying amount of land use right and intangible asset over the tax bases RMB million	Temporary difference on recognition of fair value gain of investment properties RMB million	Withholding tax on profit to be distributed in future RMB million	Revaluation of financial assets RMB million	Total RMB million
As at 1 January 2017	22,616	15,534	632	242	39,024
Acquisition of subsidiaries	13,627	—	—	—	13,627
Charged to other comprehensive income	—	—	—	(225)	(225)
(Credited)/charged to the income tax expenses	(2,411)	2,277	1,177	—	1,043
As at 31 December 2017	33,832	17,811	1,809	17	53,469
As at 1 January 2018	33,832	17,811	1,809	17	53,469
Acquisition of subsidiaries	2,586	—	—	—	2,586
Disposal of subsidiaries	(1,066)	(45)	—	—	(1,111)
Charged to other comprehensive income	—	—	—	(9)	(9)
(Credited)/charged to the income tax expenses	(1,953)	355	—	—	(1,598)
As at 31 December 2018	33,399	18,121	1,809	8	53,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 TRADE AND OTHER PAYABLES

	31 December	
	2018	2017
	RMB million	RMB million
Trade payables — third parties	**423,648**	257,459
Other payables:	**104,111**	131,994
— joint ventures (note 38(b))	**11,204**	485
— shareholders of the company (note 38(b))	**141**	—
— non-controlling interests (note a)	**9,731**	19,301
— unit holders of consolidated investment entities (note b)	**697**	3,333
— holders of internet finance business products	**10,062**	41,060
— payables for acquisition of land use rights	**31,516**	38,211
— payables for acquisition of subsidiaries	**9,191**	12,670
— payables for acquisition of an associate (note c)	**4,034**	—
— third parties (note d)	**27,535**	16,934
Accrued expenses	**7,066**	3,603
Payroll payable	**2,558**	2,212
Other taxes payable	**18,473**	8,240
	555,856	403,508
Less: non-current portion		
Other payables:	**(1,543)**	(4,049)
— non-controlling interests (note a)	**—**	(615)
— unit holders of consolidated investment entities (note b)	**—**	(3,333)
— payables for acquisition of an associate	**(1,543)**	—
— third parties	**—**	(101)
Current portion	**554,313**	399,459

(a) Amounts included certain cash advances from non-controlling interests of approximately 257 million (2017: RMB211 million) which bear average interest at 10.4% per annum (2017: 10%) and are repayable according to respective agreements.

(b) Amounts represented cash advances from the unit holders of consolidated investment entities of approximately RMB697 million (2017: RMB3,333 million) which bear average interest rate at 9.6% per annum (2017: 9.6%) and are repayable in 2019.

(c) Amounts represented payable for acquisition of an associate which bear average interest rate at 8.0% per annum and are repayable according the relevant agreement.

(d) Amounts mainly represented deposits and temporary receipts.

25 TRADE AND OTHER PAYABLES (Continued)

The following is an ageing analysis of trade payables presented based on invoice date at the end of reporting period:

	31 December	
	2018 RMB million	2017 RMB million
Within one year	378,322	226,564
Over one year	45,326	30,895
	423,648	257,459

The trade and other payables are denominated in the following currencies:

	31 December	
	2018 RMB million	2017 RMB million
— Denominated in RMB	549,935	402,881
— Denominated in other currencies	5,921	627
	555,856	403,508

26 CURRENT INCOME TAX LIABILITIES

The current income tax liabilities are analysed as follows:

	31 December	
	2018 RMB million	2017 RMB million
Income tax payables		
— PRC corporate income tax	49,162	29,484
— PRC land appreciation tax	52,110	31,976
	101,272	61,460

27 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Gains/(losses) on disposal of subsidiaries	**2,198**	(1)
(Losses)/gains on disposal of joint ventures and associates	**(138)**	121
Losses on disposal of available-for-sale financial assets (note a)	**—**	(7,191)
Net foreign exchange gains	**585**	1,049
	2,645	(6,022)

(a) On 9 June 2017, the Group disposed of its entire investment in China Vanke Co., Ltd at an aggregated consideration of approximately RMB29,200 million, which incurred a loss of RMB7,176 million.

28 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Interest income	**3,884**	4,078
Forfeited customer deposits	**766**	592
Gain on disposal of investment properties	**106**	168
Dividend income of FVOCI	**320**	—
Dividend income of AFS	**—**	364
Management and consulting service income (note 38(a))	**1,100**	—
Others	**518**	345
	6,694	5,547

29 EXPENSES BY NATURE

Major expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Cost of properties sold — including construction costs, land costs and interest costs	**285,890**	189,311
Tax and other levies	**2,590**	4,701
Employee benefit expenses (note 30)	**16,649**	11,593
Employee benefit expenditure — including directors' emoluments	**24,221**	17,259
Less: capitalised in properties under development, investment properties under construction and construction in progress	**(7,572)**	(5,666)
Advertising expenses	**7,943**	10,011
Sales commissions	**3,401**	1,615
Depreciation	**2,120**	1,772
Amortisation	**493**	222
Auditors' remuneration	**38**	32
— Audit services	**35**	29
— Non-audit services	**3**	3
Operating lease expenses	**617**	498
Write-down of properties held for sale	**462**	350
Impairment losses on financial assets	**137**	70
Donations	**3,793**	4,181

30 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Wages, salaries and bonus	**17,569**	13,257
Pension costs — statutory pension (note (a))	**1,736**	1,228
Staff welfare	**1,955**	1,533
Medical benefits	**750**	532
Employee share option schemes	**2,211**	709
	24,221	17,259
Less: capitalised in properties under development, investment properties under construction and construction in progress	**(7,572)**	(5,666)
	16,649	11,593

30 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Pensions — defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

Details of the retirement scheme contributions for the employees, which have been dealt with in the consolidated statement of comprehensive incomes of the Group, are as follows:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Gross scheme contributions	**1,736**	1,228

(b) Five highest paid individuals

During the year ended 31 December 2018, the five highest paid individuals include 2 directors (2017: 1), whose emoluments are reflected in the analysis presented in note 44. The aggregate amounts of emoluments of the other 3 highest paid individuals for the year ended 31 December 2018 (2017: 4) are set out below:

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Salaries and other benefits	**95**	127

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
HK$20,000,000 to HK$60,000,000	**3**	4

During the year ended 31 December 2018, no emolument was paid by the group entities to any of the above directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: nil).

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31 FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Interest expenses		
— Bank and other borrowings	**(48,381)**	(44,443)
— Senior notes	**(5,105)**	(4,511)
— Convertible bonds	**(1,097)**	—
— PRC bonds	**(3,344)**	(3,825)
— Less: interest capitalised	**49,935**	45,053
	(7,992)	(7,726)
Exchange (losses)/gains from borrowings	**(6,244)**	1,010
Other finance costs	**(387)**	(1,201)
	(14,623)	(7,917)

32 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Current income tax		
— Hong Kong profits tax	**18**	33
— PRC corporate income tax	**36,232**	22,633
— PRC land appreciation tax	**27,267**	18,811
	63,517	41,477
Deferred income tax (note 24)		
— PRC corporate income tax	**(2,417)**	(393)
— PRC land appreciation tax	**(882)**	(660)
	60,218	40,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 INCOME TAX EXPENSE (Continued)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the group entities as follows:

	Year ended 31 December	
	2018 **RMB million**	2017 RMB million
Profit before income tax	**126,765**	77,473
Adjusted: share of losses/(profits) of investments in joint ventures and associates, net	**874**	(1,402)
	127,639	76,071
Calculated at PRC corporate income tax rate	**31,910**	19,018
PRC land appreciation tax deductible for PRC corporate income tax purposes	**(6,596)**	(4,538)
Income not subject to tax (note (a))	**(212)**	(147)
Expenses not deductible for tax purposes (note (b))	**4,985**	3,970
Utilisation of previously unrecognised tax losses	**—**	(226)
Tax losses for which no deferred income tax asset was recognised	**1,736**	3,110
Effect of different tax rates of subsidiaries	**(613)**	(91)
PRC corporate income tax	**31,210**	21,096
PRC withholding income tax	**2,623**	1,177
PRC land appreciation tax	**26,385**	18,151
	60,218	40,424

(a) Income not subject to tax for the year ended 31 December 2018 mainly comprised fair value gain on financial assets at fair value through profit or loss.

(b) Expenses not deductible for tax purpose for the year ended 31 December 2018 comprised mainly: (i) costs of land premium without official invoices resulted from acquisition of land through acquisition of companies; and (ii) borrowing costs and administrative expenses incurred by off-shore group companies.

32 INCOME TAX EXPENSE (Continued)

Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted Company with limited liability under the Companies Law, Cap. 22 (2009 Revision as consolidated and revised from time to time) of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The group companies in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, exempted from British Virgin Islands income tax.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the current period in respect of operations in Hong Kong.

PRC corporate income tax

The income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate of 25% (2017: 25%) on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

PRC withholding income tax

According to the new Corporate Income Tax Law of the PRC, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land use rights and property development expenditures.

33 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company (RMB million)	**37,390**	24,372
Weighted average number of ordinary shares in issue (millions)	**13,125**	13,296
Basic earnings per share (RMB)	**2.849**	1.833

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares consist of share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company (RMB million)	**37,390**	24,372
Profit adjustments for Convertible bond (RMB million)	**300**	—
	37,690	24,372
Weighted average number of ordinary shares in issue (millions)	**13,125**	13,296
Adjustments for share options and Convertible bond (millions)	**506**	284
Weighted average number of ordinary shares for diluted earnings per share (millions)	**13,631**	13,580
Diluted earnings per share (RMB)	**2.765**	1.795

34 DIVIDENDS

The Board does not recommend a final dividend for the year ended 31 December 2018 on 26 March 2019, and plans to convene another meeting to evaluate the payment of a final dividend for the year ended 31 December 2018 in July 2019.

A dividend in respect of the years ended 31 December 2017 and 2016 of RMB1.13 per share totaling RMB14,802 million was paid on 19 October 2018.

35 CASH FLOW INFORMATION

(a) Net cash generated from/(used in) operations

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Profit for the year	**66,547**	37,049
Adjustments for:		
Income tax expenses	**60,218**	40,424
Interest income (note 28)	**(3,884)**	(4,078)
Finance costs (note 31)	**8,379**	8,927
Exchange losses/(gains) (note 27, note 31)	**5,659**	(2,059)
Depreciation (note 7)	**2,120**	1,772
Amortisation (note 29)	**493**	222
Employee share option schemes (note 30)	**2,211**	709
Fair value gains on investment properties (note 9)	**(1,343)**	(8,513)
Fair value (gains)/losses on financial assets at fair value through profit or loss (note 16)	**(51)**	437
Fair value (gains)/losses on derivative financial liabilities	**(797)**	820
Gains on disposal of investment properties (note 28)	**(106)**	(168)
Gains on disposal of subsidiaries (note 27)	**(2,198)**	(1)
Share of losses/(profits) of investments accounted for using equity method (note 14)	**874**	(1,402)
Losses/(gains) on disposal of joint ventures and associates (note 27)	**138**	(121)
Losses on disposal of available-for-sales financial assets (note 27)	**—**	7,191
Dividend income on fair value through other comprehensive income (note 28)	**(320)**	—
Dividend income on available-for-sale financial assets (note 28)	**—**	(364)
Changes in working capital:		
Properties under development and completed properties held for sale	**(90,029)**	(203,351)
Inventories	**126**	104
Restricted cash as guarantee for construction of projects and other operating activities	**14,314**	(14,847)
Trade and other receivables, contract costs and prepayments	**10,897**	(92,515)
Trade and other payables, contract liabilities and receipt in advance from customers	**62,099**	149,862
Net cash generated from/(used in) operations	**135,347**	(79,902)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 CASH FLOW INFORMATION (Continued)

(b) The reconciliation of liabilities arising from financial activities is as follows:

	Borrowings RMB million	Other payables (note (i)) RMB million	Total RMB million
As at 1 January 2018	**732,625**	**23,119**	**755,744**
Cash flows			
— Inflow from financing activities	**382,625**	**13,589**	**396,214**
— Outflow from financing activities	**(443,335)**	**(15,076)**	**(458,411)**
Non-cash changes			
— Acquisition of subsidiaries	**10,598**	**—**	**10,598**
— Disposal of subsidiaries	**(12,785)**	**—**	**(12,785)**
— Derivative financial liabilities of the convertible bonds at initial recognition	**(3,604)**	**—**	**(3,604)**
— Foreign exchange adjustments	**6,244**	**—**	**6,244**
— Other non-cash movement	**774**	**—**	**774**
As at 31 December, 2018	**673,142**	**21,632**	**694,774**
As at 1 January 2017	535,070	56,170	591,240
Cash flows			
— Inflow from financing activities	524,625	3,663	528,288
— Outflow from financing activities	(331,416)	(11,942)	(343,358)
Non-cash changes			
— Acquisition of subsidiaries	5,032	—	5,032
— Foreign exchange adjustments	(1,009)	—	(1,009)
— Other non-cash movement	323	(24,772)	(24,449)
As at 31 December, 2017	732,625	23,119	755,744

(i) Amounts represent cash advances from associates, joint ventures, non-controlling interests, investors of subsidiaries and unit holders of consolidated investment entities.

36 FINANCIAL GUARANTEES

	31 December	
	2018	2017
	RMB million	RMB million
Guarantees in respect of mortgage facilities for certain purchasers of the Group's property units (note (a))	**412,721**	344,026
Guarantees for borrowings of cooperation parties (note (b))	**49,711**	10,200
Guarantees for borrowings of joint ventures and an associate (note 38(a))	**19,052**	2,229
	481,484	356,455

(a) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors consider that the likelihood of default in payments by purchasers is minimal and the financial guarantees measured at fair value is immaterial.

(b) Amounts represent guarantees provided to certain cooperation parties (mainly construction subcontractors) of the Group, who are independent third parties, to obtain borrowings after assessing the credit history of these cooperation parties. The Group closely monitors the repayment progress of the relevant borrowings by these cooperation parties. The directors consider that the likelihood of default in payments is minimal and the financial guarantees measured at fair value is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 COMMITMENTS

(a) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December	
	2018	2017
	RMB million	RMB million
Property, plant and equipment:		
Not later than one year	**947**	512
Later than one year and not later than five years	**1,281**	760
Later than five years	**163**	80
	2,391	1,352

(b) Commitments for property development and acquisition of subsidiaries

	31 December	
	2018	2017
	RMB million	RMB million
Contracted but not provided for		
— Property development activities	**283,004**	195,317
— Acquisition of land use rights	**61,585**	71,487
— Acquisition of subsidiaries	**2,710**	10,574
	347,299	277,378

38 RELATED PARTY TRANSACTIONS

Xin Xin (BVI) Limited ("Xin Xin") is the immediate holding company of the Company, and Dr Hui Ka Yan("Dr. Hui") is the ultimate controlling shareholder and also the director of the Company.

(a) Transactions with related parties

Save as disclosed in note 12 and 25, during the years ended 31 December 2018 and 2017, the Group had the following significant transactions with related parties, which are carried out in the normal course of the Group's business:

	Year ended 31 December	
	2018 **RMB million**	2017 RMB million
Nature of transactions		
Associates		
Loan interest charged by an associate	**258**	65
Joint ventures		
Management and consulting service to joint ventures	**1,100**	—
Financial guarantees to joint ventures and an associate	**19,052**	2,229
Sales of goods to joint ventures	**650**	622
Provision of services to joint ventures	**337**	47
Rental income from joint ventures	**14**	24
Advertisement service fees charged by a joint venture	**420**	286
Rental fee charged by joint ventures	**75**	50
Purchase of goods from a joint venture	**52**	6
Loan interest charged by a joint venture	**383**	534
Shareholders of the Company		
Loan interest charged by Xin Xin and Dr. Hui (note 38(b)(iii))	**141**	—

Aforementioned related party transactions were charged in accordance with the terms of the underlying agreements which, in the opinion of the directors of the Company, were determined with reference to the market price of the prescribed year. In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually negotiated between the Group and the respective related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

As at 31 December 2018 and 2017, the Group had the following significant non-trade balances with related parties:

	31 December	
	2018 RMB million	2017 RMB million
Due from related parties		
Included in cash and cash equivalents:		
— Associates	24,631	31,691
Included in trade and other receivables (note (i))		
— Joint ventures	17,470	5,514
Included in prepayments		
— A joint venture	66	456

Note (i): Except for the amounts of RMB1,307 which carry interest at 6% per annum and receivable according to respective loan agreements, the remaining balances are cash advances in nature, which are unsecured, interest-free and repayable on demand.

	31 December	
	2018 RMB million	2017 RMB million
Due to related parties		
Included in trade and other payables (note (i))		
— Joint ventures	11,204	485
— Xin Xin and Dr. Hui	141	—
	11,345	485
Included in borrowings (note (ii))		
— A joint venture	3,700	2,700
— An associate	4,336	727
— Xin Xin and Dr. Hui (note (iii))	6,807	—
	14,843	3,427

Note (i): The balances are cash advances in nature, which are unsecured, interest-free and repayable on demand.

Note (ii): The balances are borrowings in nature, which are secured, carry interest ranging from 6.175% to 13.75% per annum and repayable according to respective loan agreements.

Note (iii): The balances represented Xin Xin and Dr. Hui subscribed for US$250 million 2018 issued 2022 Notes and US$250 million 2018 issued 2023 Notes, respectively.

38 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

Key management includes directors and heads of major operational departments. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Salaries and other employee benefits	**1,022**	841
Retirement scheme contributions	**4**	3
	1,026	844

39 NON-CONTROLLING INTERESTS

The movements of non-controlling interests were as follows:

	31 December	
	2018	2017
	RMB million	RMB million
At 1 January	**127,436**	35,348
Change in accounting policy (note (3)(b))	**(229)**	—
Profit for the year	**29,157**	11,954
Change in value of FVOCI	**(149)**	—
Change in value of AFS	**—**	995
Currency translation differences	**192**	(194)
Capital injection (note (i))	**42,071**	81,993
Acquisition of subsidiaries — acquisition of asset (note (ii))	**1,365**	406
Acquisition of subsidiaries — acquisition of business	**10**	1,701
Changes in ownership interests in subsidiaries without change of control (note (iii))	**(11,510)**	(4,520)
Dividends	**(12,882)**	(241)
Disposal of subsidiaries	**(362)**	(7)
Issuance of shares pursuant to the Bonus Warrants	**—**	1
Employee share option schemes	**532**	—
	175,631	127,436

39 NON-CONTROLLING INTERESTS (Continued)

(i) Capital injection

During the year ended 31 December 2018, the Group has established certain new subsidiaries engaging in property development and property investment businesses and received capital injections from minority interests totaling RMB42,071 million.

(ii) Acquisition of subsidiaries

During the year ended 31 December 2018, the Group acquired controlling interests of certain property development companies in the PRC at consideration totaling approximately RMB14,359 million. These companies only held parcels of land and did not conduct any substantial operation before they were acquired by the Group. Thus, the directors are of the view that the acquisitions do not constitute acquisition of businesses, and should be treated as acquisition of land use rights. These acquisitions resulted in an increase in the non-controlling interests of the Group totaling 1,365 million.

(iii) Changes in ownership interests in subsidiaries without change of control

During the year ended 31 December 2018, the Group acquired certain equity interests of certain subsidiaries amounting to RMB11,510 million from non-controlling shareholders, the difference between consideration paid and the carrying amount of equity interest acquired amounting to RMB2,997 million was recognised as a decrease in reserves.

40 BUSINESS COMBINATIONS

During the year ended 31 December 2018, the Group acquired controlling interests of certain property development companies and other companies in the PRC.

The following table summarises the consideration paid for acquisition of these subsidiaries, the fair value of assets acquired and liabilities assumed at the acquisition date.

	RMB million
Cash consideration	7,742
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,360
Property, plant and equipment	1,714
Intangible assets	14
Investment properties	37
Properties under development	23,991
Trade and other receivables	4,646
Prepayments	464
Borrowings	(10,598)
Trade and other payables	(7,491)
Contract liabilities	(3,987)
Current income tax liabilities	(5)
Deferred income tax liabilities	(2,586)
Total identifiable net assets	7,559
Non-controlling interest	(10)
Identifiable net assets acquired	7,549
Goodwill	193

40 BUSINESS COMBINATIONS (Continued)

Reconciliation of total cash considerations of business combinations and cash outflow on acquisitions is as follows:

	RMB million
Cash considerations	7,742
Prepaid in prior year	
Considerations deferred	(4,065)
Cash and cash equivalents acquired	(1,360)
Payment for business combinations conducted in the year	2,317
Payment for business combinations conducted in prior year	7,543
Cash outflow on acquisitions	9,860

Acquisition-related costs of RMB3 million have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

The acquired businesses contributed revenues of RMB220 million and net losses of 281 million to the Group for the period from the respective acquisition dates to 31 December 2018. If the acquisitions had occurred on 1 January 2018, consolidated revenue and consolidated profit for the year ended 31 December 2018 would have been RMB466,278 million and RMB66,535 million respectively.

41 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	31 December	
	2018 **RMB million**	2017 RMB million
ASSETS		
Non-current assets		
Investments in subsidiaries	**5,003**	2,875
Property, plant and equipment	**2**	7
	5,005	2,882
Current assets		
Available-for-sale financial assets	**—**	1,183
Amounts due from subsidiaries	**94,367**	73,502
Other receivables	**419**	1,513
Cash and cash equivalents	**993**	567
	95,779	76,765
Total assets	**100,784**	79,647
EQUITY		
Capital and reserves attributable to shareholders of the Company		
Share capital and premium	**1,205**	1,270
Other reserves	**4,261**	2,115
Accumulated losses	**(11,701)**	(7,491)
Total equity	**(6,235)**	(4,106)
LIABILITIES		
Non-current liabilities		
Derivative financial liabilities	**2,807**	—
Borrowings	**73,583**	57,682
	76,390	57,682
Current liabilities		
Amounts due to subsidiaries	**30,629**	26,071
Total liabilities	**107,019**	83,753
Total equity and liabilities	**100,784**	79,647

The balance sheet of the Company was approved by the Board on 26 March 2019 and was signed on its behalf.

Hui Ka Yan
Director

Pan Da Rong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (Continued)

Reserve movement of the Company

	Other reserves RMB million	Accumulated losses RMB million
At 1 January 2017	1,495	(108)
Loss for the year	—	(1,708)
Dividends	—	—
Issuance of shares pursuant to the option scheme	(139)	—
Employee share option schemes	709	—
Repurchase of shares	50	(5,253)
Distribution to holders of perpetual capital instruments	—	(422)
At 31 December 2017	2,115	(7,491)
At 1 January 2018	2,115	(7,491)
Profit for the year	—	13,087
Dividends	—	(14,802)
Issuance of shares pursuant to the option scheme	(76)	—
Employee share option schemes	2,211	—
Repurchase of shares	11	(2,495)
At 31 December 2018	4,261	(11,701)

42 SUBSEQUENT EVENTS

On 25 January 2019, the Group has issued 7.0%, one-year senior notes with an aggregated principal amount of US$1,100 million at the face value, 6.25%, two-year senior notes with an aggregated principal amount of US$875 million at the face value and 8.25%, three-year senior notes with an aggregated principal amount of US$1,025 million at the face value.

On 1 March 2019, the Group issued 9.0%, two-year senior notes with an aggregated principal amount of US$600 million at the face value.

43 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of directors of the Company for the year ended 31 December 2018 is set out below:

	Fees RMB'000	Salary RMB'000	Contribution to pension scheme RMB'000	Employees share option scheme RMB'000	Total RMB'000
Dr. Hui	240	—	13	—	253
Mr. Xia Haijun *(Chief executive)*	240	222,768	16	19,453	242,477
Ms. He Miaoling	240	13,316	15	3,806	17,377
Mr. Pan Da Rong	240	6,455	72	10,201	16,968
Mr. Shi Junping	240	8,741	67	2,760	11,808
Mr. Huang Xiangui	240	5,475	30	1,903	7,648
Mr. Chau Shing Yim David	300	—	—	59	359
Mr. He Qi	360	—	—	118	478
Ms. Xie Hongxi	360	—	—	177	537
	2,460	256,755	213	38,477	297,905

The remuneration of directors of the Company for the year ended 31 December 2017 is set out below:

	Fees RMB'000	Salary RMB'000	Contribution to pension scheme RMB'000	Employees share option scheme RMB'000	Total RMB'000
Dr. Hui	224	—	—	—	224
Mr. Xia Haijun *(Chief executive)*	224	280,044	15	17,786	298,069
Ms. He Miaoling	240	12,680	—	1,702	14,622
Mr. Pan Da Rong	420	6,365	52	2,722	9,559
Mr. Shi Junping	164	7,876	52	1,148	9,240
Mr. Huang Xiangui	224	4,530	15	851	5,620
Mr. Chau Shing Yim David	336	—	—	193	529
Mr. He Qi	360	—	—	77	437
Ms. Xie Hongxi	360	—	—	116	476
	2,552	311,495	134	24,595	338,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits

During the year ended 31 December 2018, there were no additional retirement benefit received by the directors except for the attribution to a retirement benefit scheme as disclosed in note (a) above (2017: same).

(c) Directors' termination benefits

During the year ended 31 December 2018, there was no termination benefits received by the directors (2017: same).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, no consideration was paid for making available the services of the directors of the Company (2017: same).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During year ended 31 December 2018, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors..

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is a list of the particulars of principal subsidiaries at 31 December 2018:

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
Incorporated in the BVI with limited liability and operating in the PRC					
ANJI (BVI) Limited	26 June 2006	US$100	100%	–	Investment holding
ShengJian (BVI) Limited	29 January 2007	US$100	–	100%	Investment holding
Ever Grace Group Limited	18 September 2008	US$100	–	100%	Investment holding

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
Incorporated in Hong Kong with limited liability and operating in the PRC					
Success Will Group Limited	5 July 2007	HK$1,000	–	100%	Investment holding
Wisdom Gain Group Limited	13 June 2003	US$10,000	–	100%	Investment holding
Full Hill Limited	3 January 2002	US$1	–	100%	Investment holding
Grandday Group Limited	16 January 2008	US$100	–	100%	Investment holding
Incorporated and operating in Hong Kong with limited liability					
Pioneer Time Investment Limited	15 January 2016	US$10,000	–	100%	Property investment
Incorporated in the PRC with limited liability and operating in the PRC					
恒大地產集團有限公司 Hengda Real Estate Group Company Limited	24 June 1996	RMB2,500,000,000	–	63.46%	Property development
恒大地產集團重慶有限公司 Hengda Real Estate Group (Chongqing) Company Limited	17 July 2006	RMB4,821,000,000	–	100%	Property development
恒大地產集團江津有限公司 Hengda Real Estate Group (Jiangjin) Company Limited	27 July 2006	RMB1,330,000,000	–	100%	Property development
鄂州恒大房地產開發有限公司 Ezhou Hengda Real Estate Development Company Limited	11 July 2008	RMB390,000,000	–	100%	Property development
恒大鑫豐(彭山)置業有限公司 Hengda Xinfeng (Pengshan) Property Company Limited	23 April 2010	RMB821,520,000	–	100%	Property development
啟東勤盛置業有限公司 Qinsheng (Qidong) Property Company Limited	1 January 2007	USD141,100,000	–	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
金碧物業有限公司 Jinbi Property Management Company Limited	10 September 1997	RMB177,600,000	–	100%	Property management
恒大地產集團洛陽有限公司 Hengda (Luoyang) Real Estate Group Property Company Limited	5 September 2007	RMB457,000,000	–	100%	Property development
南寧銀象房地產開發有限責任公司 Yinxiang (Nanning) Real Estate Development Company Limited	24 November 2005	RMB20,000,000	–	100%	Property development
佛山市南海俊誠房地產開發有限公司 Nanhai Juncheng (Foshan) Real Estate Development Company Limited	23 November 2007	RMB1,632,653,061	–	100%	Property development
恒大地產集團包頭有限公司 Hengda Real Estate Group (Baotou) Company Limited	9 August 2008	RMB525,000,000	–	100%	Property development
江西宏吉投資有限公司 Hongji (Jiangxi) Investment Company Limited	12 November 2012	RMB383,580,000	–	100%	Property development
長沙寶瑞房地產開發有限公司 Baorui (Changsha) Real Estate Development Company Limited	13 July 2004	RMB470,000,000	–	100%	Property development
海南東方明珠房地產有限公司 Dongfang Mingzhu (Hainan) Real Estate Development Company Limited	8 June 2004	RMB70,000,000	–	100%	Property development
天津市津麗湖投資有限公司 Jinli Lake (Tianjin) Investment Company Limited	13 November 2009	RMB690,000,000	–	100%	Property development
濟南恒大綠洲置業有限公司 Jinan Hengdalvzhou Property Corporation Limited	18 January 2010	RMB870,000,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
太原俊景房地產開發有限公司 Junjing (Tainyuan) Real Estate Development Company Limited	2 April 2010	RMB782,200,000	–	66%	Property development
成都天府水城房地產開發有限公司 Tianfu Shuicheng (Chengdu) Real Estate Development Company Limited	22 March 2010	USD230,000,000	–	98%	Property development
濟南恒大金碧房地產開發有限公司 Hengda Jinbi (Jinan) Real Estate Development Company Limited	18 May 2010	RMB740,000,000	–	100%	Property development
石家莊地益嘉房地產開發有限公司 Shijiazhuang Diyijia Real Estate Company Limited	5 April 2010	RMB5,000,000	–	70%	Property development
榆中俊興房地產開發有限公司 Yuzhong Junxing Real Estate Company Limited	28 July 2010	RMB790,000,000	–	100%	Property development
恒大地產集團呼和浩特有限公司 Hengda (Huhehaote) Real Estate Group Company Limited	6 September 2010	RMB390,000,000	–	100%	Property development
安陽通瑞達房地產開發有限公司 Tongruida (Anyang) Real Estate Development Company Limited	8 October 2010	RMB500,000,000	–	100%	Property development
天津濱僑投資有限公司 Binqiao (Tianjin) Investment Company Limited	28 November 2007	RMB1,000,000,000	–	100%	Property development
哈爾濱市恒大偉業房地產開發有限公司 Harbin Hengda Weiye Real Estate Development Company Limited	26 January 2011	RMB780,000,000	–	100%	Property development
清遠市銀湖城投資有限公司 Yinhucheng (Qingyuan) Investment Company Limited	28 September 2009	RMB800,000,000	–	100%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
濰坊金碧置業有限公司 Jinbi (Weifang) Property Company Limited	4 March 2011	RMB600,000,000	–	100%	Property development
恒大地產集團韶關有限公司 Hengda (Shaoguan) Real Estate Group Company Limited	16 March 2011	RMB1,003,170,000	–	100%	Property development
合肥粵通置業有限公司 Yuetong (Hefei) Property Company Limited	25 August 2011	RMB200,000,000	–	100%	Property development
南昌中電投高新置業有限公司 Zhongdiantou Gaoxin (Hefei) Property Company Limited	10 May 2011	RMB383,000,000	–	100%	Property development
六安粵通置業有限公司 Luan Yuetong Property Corporation Limited	13 July 2011	RMB290,000,000	–	100%	Property development
恒大地產集團恩平有限公司 Hengda (Enping) Real Estate Group Company Limited	21 February 2012	RMB1,020,000,000	–	100%	Property development
新鄉御景置業有限公司 Yujing (Xinxiang) Property Corporation Limited	23 May 2012	RMB100,000,000	–	100%	Property development
城博(寧波)置業有限公司 Chengbo (Ningbo) Property Company Limited	18 January 2011	USD328,000,000	–	100%	Property development
潮州市恒大置業有限公司 Chaozhou Hengda Property Company Limited	10 July 2012	RMB280,000,000	–	100%	Property development
寧波御城置業有限公司 Yucheng (Ningbo) Property Company Limited	30 May 2012	USD76,834,508	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
無錫盛東房產開發有限公司 Shengdong (Wuxi) Real Estate Development Company Limited	6 May 2010	RMB200,000,000	–	100%	Property development
海口外灘城房地產有限公司 Waitancheng (Haikou) Real Estate Company Limited	5 September 2012	RMB700,000,000	–	100%	Property development
濟南俊匯置業有限公司 Junhui (Jinan) Property Company Limited	13 May 2013	RMB288,000,000	–	100%	Property development
長沙鑫芙置業有限公司 Xinfu (Changsha) Property Company Limited	13 May 2013	RMB663,265,300	–	100%	Property development
廣州市鑫誠置業有限公司 Xincheng (Guanghzou) Property Company Limited	23 May 2013	RMB720,000,000	–	100%	Property development
重慶恒大鑫泉置業有限公司 Hengda Xinquan (Chongqing) Property Company Limited	6 June 2013	RMB2,000,000,000	–	100%	Property development
恒大地產集團河源有限公司 Hengda Real Estate Group (Heyuan) Company Limited	17 June 2013	RMB200,000,000	–	100%	Property development
北京沙河恒大置業有限公司 Shahe Hengda (Beijing) Property Company Limited	12 July 2013	RMB1,330,000,000	–	100%	Property development
合肥粵誠置業有限公司 Yuecheng (Hefei) Property Company Limited	9 September 2013	RMB1,920,000,000	–	100%	Property development
宜昌楚天恒大房地產開發有限公司 Chutian Hengda (Yichang) Real Estate Company Limited	10 September 2013	RMB150,000,000	–	60%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
常德鑫澤置業有限公司 Xinze (Changde) Property Company Limited	26 August 2013	RMB110,000,000	–	60%	Property development
恒大地產集團北京有限公司 Hengda (Beijing) Real Estate Group Company Limited	11 September 2013	RMB1,830,000,000	–	100%	Property development
杭州穗華置業有限公司 Hangzhou Suihua Property Company Limited	25 September 2013	RMB1,500,000,000	–	100%	Property development
南京旭泰房地產開發有限公司 Nanjing Xutai Real Estate Company Limited	20 November 2013	RMB970,000,000	–	100%	Property development
南京美旭房地產開發有限公司 Nanjing Meixu Real Estate Development Company Limited	20 November 2013	RMB1,503,000,000	–	100%	Property development
北京恒興盛房地產開發有限公司 Hengxingsheng (Beijing) Real Estate Company Limited	8 November 2013	RMB3,520,000,000	–	100%	Property development
上海金碧置業有限公司 Jinbi (Shanghai) Property Company Limited	25 December 2013	RMB865,000,000	–	100%	Property development
上海松裕置業有限公司 Songyu (Shanghai) Property Company Limited	24 December 2013	RMB655,000,000	–	100%	Property development
上海茸善置業有限公司 Rongshan (Shanghai) Property Company Limited	23 December 2013	RMB418,000,000	–	100%	Property development
天津帝景房地產開發有限公司 Tianjin Dijing Real Estate Development Company Limited	23 December 2013	RMB30,000,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest Directly	Percentage of attributable equity interest Indirectly	Principal activities
太原市俊恒房地產開發有限公司 Taiyuan Junheng Real Estate Company Limited	16 January 2014	RMB1,160,000,000	–	100%	Property development
北京正浩置業有限公司 Zhenghao (Beijing) Property Company Limited	4 March 2014	RMB1,750,000,000	–	100%	Property development
北京恒龍置業有限公司 Henglong (Beijing) Property Company Limited	12 March 2014	RMB1,719,090,500	–	70%	Property development
成都市恒大新西城置業有限公司 Hengda New West City Property Company Limited	29 April 2014	RMB710,000,000	–	100%	Property development
長沙金霞開發建設有限公司 Jinxia (Changsha) Real Estate Development Company Limited	5 September 2014	RMB122,450,000	–	51%	Property development
太原金世恒房地產開發有限公司 Jinshiheng (Taiyuan) Real Estate Company Limited	27 November 2014	RMB1,685,530,000	–	100%	Property development
鄭州恒林置業有限公司 Henglin (Zhengzhou) Property Company Limited	6 September 2013	RMB500,239,600	–	51%	Property development
濟南東進龍鼎置業有限公司 Jinan Dongjin Longding Property Company Limited	3 November 2014	RMB820,000,000	–	100%	Property development
岳陽金瑞置業有限公司 Jinrui (Yueyang) Property Company Limited	15 January 2015	RMB20,000,000	–	64%	Property development
成都恒大新東城置業有限公司 Hengda New East City Property Company Limited	15 January 2015	RMB1,620,000,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
武漢恒大都市房地產開發有限公司 Hengda Dushi (Wuhan) Real Estate Company Limited	17 March 2015	RMB50,000,000	–	51%	Property development
莆田金碧置業有限公司 Putian Jinbi Property Company Limited	2 April 2015	RMB20,000,000	–	100%	Property development
贛州恒大地產有限公司 Hengda (Ganzhou) Real Estate Company Limited	6 May 2015	RMB261,000,000	–	100%	Property development
重慶永利置業有限公司 Yongli (Chongqing) Property Company Limited	22 April 2015	RMB703,320,000	–	100%	Property development
張家港盛建置業有限公司 Shengjian (Zhangjiagang) Property Company Limited	13 May 2015	RMB350,000,000	–	100%	Property development
廈門恒大置業有限公司 Xiamen Hengda Property Company Limited	4 June 2015	RMB20,000,000	–	100%	Property development
重慶恒大鑫溉置業有限公司 Chongqing Hengda Xingai Property Company Limited	21 August 2014	RMB1,000,000,000	–	100%	Property development
北京恒隆興置業有限公司 Henglongxing (Beijing) Property Company Limited	25 June 2015	RMB1,000,000,000	–	100%	Property development
汕頭市恒悦置業有限公司 Hengyue (Chaoshan) Property Company Limited	27 May 2015	RMB300,000,000	–	100%	Property development
雲南恒雲置業有限公司 Yunnan Hengyun Property Company Limited	26 May 2015	RMB214,000,000	–	51%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
武漢三江航天嘉園房地產開發有限公司 Sanjiang Hangtian Jiayuan (Wuhan) Real Estate Development Company Limited	11 November 2015	RMB10,000,000	–	67%	Property development
武漢三江航天投資發展有限公司 Sanjiang Hangtian (Wuhan) Investment Company Limited	11 November 2015	RMB10,000,000	–	67%	Property development
湖北三江航天商業經營有限公司 Sanjiang Hangtian (Wuhan) Business Operation Company Limited	11 December 2015	RMB10,000,000	–	67%	Property development
重慶中渝物業發展有限公司 Zhongyu (Chongqing) Property Management Company Limited	10 July 2015	USD131,000,000	–	60%	Property development
愛美高實業(成都)有限公司 Avergo (Chengdu) Industrial Company Limited	14 July 2015	RMB369,560,000	–	100%	Property development
儋州中潤旅遊開發有限公司 Zhongrun (Danzhou) Tourism Development Company Limited	19 August 2015	RMB20,000,000	–	100%	Property development
儋州信恒旅遊開發有限公司 Xinheng (Danzhou) Tourism Development Company Limited	19 August 2015	RMB800,000,000	–	100%	Property development
漳州信成房地產開發有限公司 Xincheng (Zhangzhou) Real Estate Company Limited	20 January 2015	RMB80,000,000	–	100%	Property development
柳州市兆福地產置業有限公司 Zhaofu (Liuzhou) Property Company Limited	18 September 2015	RMB163,265,300	–	100%	Property development
江陰雅盛恒泰置業有限公司 Jiangyin Yasheng Hengtai Property Company Limited	19 July 2013	RMB400,000,000	–	100%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
懷來恒天房地產開發有限公司 Hengtian (Huailai) Real Estate Development Company Limited	18 September 2015	RMB871,008,700	–	86%	Property development
重慶尖置房地產有限公司 Jianzhi (Chongqing) Real Estate Company Limited	10 July 2015	HKD5,880,000,000	–	69%	Property development
阜陽粵通置業有限公司 Yuetong (Fuyang) Property Company Limited	27 November 2015	RMB650,000,000	–	100%	Property development
衡水隆澤房地產開發有限公司 Longze (Hengshui) Real Estate Development Company Limited	10 December 2015	RMB617,293,000	–	60%	Property development
南寧耀世龍庭房地產開發有限公司 Yaoshi Dragon Court (Nanning) Real Estate Development Company Limited	25 November 2015	RMB320,000,000	–	100%	Property development
南京臨江御景房地產開發有限公司 Linjiang Yujing (Nanjing) Real Estate Development Company Limited	11 December 2015	RMB1,471,650,000	–	100%	Property development
珠海市恒大海泉灣置業有限公司 Hengda Haiquanwan (Zhuhai) Property Company Limited	10 December 2015	RMB821,812,000	–	51%	Property development
海南陵水棕櫚泉置業有限公司 Lingshui Zonglvquan (Hainan) Property Company Limited	12 June 2015	RMB1,070,000,000	–	100%	Property development
杭州晶立置業有限公司 Hangzhou Jingli Property Company Limited	2 February 2016	USD370,000,000	–	100%	Property development
貴陽新世界房地產有限公司 New World (Guiyang) Real Estate Company Limited	18 February 2016	USD301,350,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
武漢新世界康居發展有限公司 New World Peaceful Living (Wuhan) Development Company Limited	5 January 2016	RMB96,000,000	–	60%	Property development
上海豐濤置業有限公司 Fengtao (Shanghai) Property Company Limited	14 March 2016	RMB316,949,620	–	90%	Property development
哈爾濱市佳業房地產開發有限公司 Jiaye (Harbin) Real Estate Development Company Limited	18 January 2016	RMB20,000,000	–	100%	Property development
青島金灣置業有限公司 Qingdao Jinwan Property Company Limited	25 January 2016	RMB1,000,000,000	–	100%	Property development
長沙湘江名苑房地產有限公司 Xiangjiang Mingyuan (Changsha) Real Estate Company Limited	22 April 2016	RMB410,000,000	–	51%	Property development
北京富華房地產開發有限公司 Fuhua (Beijing) Real Estate Development Company Limited	11 January 2016	USD29,900,000	–	100%	Property development
廣盛華僑(大亞灣)房產開發有限公司 Guangsheng Huaqiao (Dayawan) Real Estate Development Company Limited	29 April 2016	USD20,820,000	–	100%	Property development
恒大地產集團鹽城城南置業有限公司 Chengnan (Yancheng) Real Estate Property Company Limited	27 January 2016	RMB620,000,000	–	100%	Property development
柳州御景龍恒房地產開發有限公司 Yujing Longheng (Liuzhou) Real Estate Company Limited	3 February 2016	RMB20,000,000	–	100%	Property development
天津御景灣投資有限公司 Yujingwan (Tianjin) Investment Company Limited	29 February 2016	RMB740,000,000	–	100%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
南京恒裕房地產開發有限公司 Hengyu (Nanjing) Real Estate Company Limited	29 January 2016	RMB685,000,000	–	100%	Property development
佛山市裕朗通房地產開發有限公司 Yulangtong (Foshan) Real Estate Development Company Limited	26 February 2016	RMB1,600,000,000	–	100%	Property development
瀋陽嘉興置業有限公司 Jiaxing (Shenyang) Property Company Limited	28 March 2016	RMB350,000,000	–	100%	Property development
佛山市南海俊凱房地產開發有限公司 Nanhai Junkai (Foshan) Real Estate Development Company Limited	13 April 2016	RMB1,200,000,000	–	100%	Property development
廣東江門船廠有限公司 Jiangmen Chuanchang (Guangdong) Company Limited	17 October 2016	RMB50,000,000	–	100%	Property development
河南恒龍置業有限公司 Henglong (Henan) Property Company Limited	14 April 2016	RMB500,000,000	–	100%	Property development
甘肅恒源房地產開發有限公司 Hengyuan (Gansu) Real Estate Development Company Limited	25 March 2016	RMB60,000,000	–	100%	Property development
哈爾濱高登置業有限公司 Gaodeng (Harbin) Property Company Limited	31 March 2016	RMB941,200,000	–	100%	Property development
濟南御峰置業有限公司 Yufeng (Jinan) Property Company Limited	1 April 2016	RMB500,000,000	–	100%	Property development
北海君海旅遊文化有限公司 Junhai (Beihai) Tourism Culture Company Limited	31 March 2016	RMB1,000,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
成都心怡房地產開發有限公司 Xinyi (Chengdu) Real Estate Development Company Limited	3 May 2016	USD99,500,000	–	100%	Property development
武漢市金碧翡翠房地產開發有限公司 Jinbi Feicui (Wuhan) Real Estate Development Company Limited	13 May 2016	RMB975,000,000	–	100%	Property development
瀋陽嘉景置業有限公司 Jiajing (Shenyang) Property Company Limited	23 May 2016	RMB350,000,000	–	100%	Property development
開封國際城一號實業開發有限公司 Guojicheng Yihao (Kaifeng) Industrial Development Company Limited	17 May 2010	RMB788,247,873	–	100%	Property development
山西蘭花康宇房地產開發有限公司 Lanhua Kangyu (Shanxi) Real Estate Development Company Limited	1 July 2016	RMB50,400,000	–	82%	Property development
成都盛世瑞城置業有限公司 Shengshi Ruicheng (Chengdu) Property Company Limited	4 July 2016	RMB530,000,000	–	100%	Property development
鄭州玖智房地產開發有限公司 Jiuzhi (Zhengzhou) Real Estate Development Company Limited	5 July 2016	RMB500,000,000	–	51%	Property development
貴陽中渝置地房地產開發有限公司 Zhongyu (Guiyang) Property Real Estate Development Company Limited	26 December 2016	USD130,000,000	–	100%	Property development
梅州大百匯品牌產業園有限公司 Big Parkway (Meizhou) Brand Industrial Park Company Limited	8 June 2016	RMB100,000,000	–	100%	Property development
淶水利華房地產開發有限公司 Laishui Lihua Real Estate Development Company Limited	8 July 2016	RMB142,857,000	–	65%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
四川亞天瑞和投資有限公司 Yatian Ruihe (Sichuan) Investment Company Limited	6 June 2016	RMB102,500,000	–	100%	Property development
成都樹仁置業有限公司 Shuren (Chengdu) Property Company Limited	14 July 2016	RMB10,000,000	–	100%	Property development
上饒市恒大置業有限公司 Hengda (Shangrao) Property Company Limited	11 August 2016	RMB50,000,000	–	100%	Property development
大連東方盛都置地有限公司 Dongfang Shengdu (Dalian) Real Estate Company Limited	8 July 2016	RMB110,000,000	–	100%	Property development
新津恒大新城置業有限公司 Hengda Xincheng (Xinjin) Property Company Limited	22 June 2016	RMB483,118,005	–	100%	Property development
無錫雲廈置業有限公司 Yunxia (Wuxi) Property Company Limited	25 July 2016	RMB560,000,000	–	100%	Property development
濟南源浩置業有限公司 Jinan Yuanhao Property Company Limited	18 July 2016	RMB900,000,000	–	100%	Property development
柳州山水韵和置業有限公司 Shanshui Yunhe (Liuzhou) Property Company Limited	24 August 2016	RMB33,333,400	–	85%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
濟南西開置業有限公司 Jinan Xikai Property Company Limited	16 August 2016	RMB18,000,000	–	100%	Property development
濟南西業置業有限公司 Jinan Xiye Property Company Limited	16 August 2016	RMB18,000,000	–	100%	Property development
焦作御景置業有限公司 Yujing (Jiaozuo) Property Company Limited	22 August 2016	RMB100,000,000	–	100%	Property development
威海華府置業有限公司 Huafu (Weihai) Property Company Limited	6 September 2016	RMB300,000,000	–	100%	Property development
佛山市三水盈盛房地產發展有限公司 Sanshui Yingsheng (Foshan) Real Estate Development Company Limited	8 September 2016	RMB1,210,000,000	–	100%	Property development
成都裕龍壹號房地產開發有限公司 Yulong Yihao (Chengdu) Real Estate Development Company Limited	18 September 2012	RMB525,000,000	–	100%	Property development
海南金萃房地產開發有限公司 Jincui (Hainang) Real Estate Company Limited	25 November 2016	RMB169,380,000	–	100%	Property development
紹興永恒置業有限公司 Yongheng (Shaoxing) Property Company Limited	30 September 2016	RMB2,400,000,000	–	100%	Property development

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44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
汕頭市恒合置業有限公司 Henghe (Shantou) Property Company Limited	3 December 2015	RMB200,000,000	–	100%	Property development
湖州市烏虹湖置業有限公司 Wuhonghu (Huzhou) Property Company Limited	27 October 2016	RMB1,632,653,061	–	51%	Property development
昆明恒海房地產開發有限公司 Henghai (Kunming) Real Estate Development Company Limited	24 October 2016	RMB20,000,000	–	100%	Property development
長沙恒大童世界旅遊開發有限公司 Hengda Tongshijie (Changsha) Real Estate Company Limited	20 October 2016	RMB1,920,000,000	–	100%	Property development
臨沂恒金置業有限公司 Hengjin (Linyi) Property Company Limited	23 September 2016	RMB50,000,000	–	60%	Property development
太原恒德隆房地產開發有限公司 Hengdelong (Taiyuan) Real Estate Development Company Limited	4 November 2016	–	–	100%	Property development
成都萬浩置業有限公司 Wanhao (Chengdu) Property Company Limited	29 September 2016	RMB19,600,000	–	100%	Property development

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
西安遠聲實業有限公司 Yuansheng (Xian) Industrial Company Limited	26 December 2016	RMB120,000,000	–	100%	Property development
重慶恒大鑫南置業有限公司 Chongqing Hengda Xinnan Property Company Limited	22 December 2016	RMB250,000,000	–	100%	Property development
重慶同景宏航置地有限公司 Tongjing Honghang (Chongqing) Land Limited	22 December 2016	RMB220,000,000	–	100%	Property development
重慶同景共好置地有限公司 Tongjing Gonghao (Chongqing) Property Company Limited	22 December 2016	RMB610,000,000	–	100%	Property development
哈爾濱市振業房地產開發有限公司 Zhenye (Haerbin) Real Estate Company Limited	28 September 2016	RMB20,000,000	–	100%	Property development
南通盛建置業有限公司 Shengjian (Nantong) Property Company Limited	9 January 2017	RMB500,000,000	–	100%	Property development
揚州盛基房地產開發有限公司 Shengji (Yangzhou) Real Estate Company Limited	22 March 2017	RMB20,000,000	–	100%	Property development
四川川大科技園(南區)開發有限公司 Sichuan University Science Park (Southern District) Development Company Limited	13 January 2017	RMB37,915,300	–	91%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Date of incorporation/ Establishment	Nominal value of issued and fully paid share capital/ paid-in capital	Percentage of attributable equity interest		Principal activities
			Directly	Indirectly	
深圳市萬京投資有限公司 Wanjing (Shenzhen) Investment Company Limited	28 March 2017	RMB30,000,000	–	100%	Property development
佛山市三水區能潤置地房地產開發有限公司 Sanshui Nengrun (Foshan) Real Estate Development Company Limited	4 April 2007	RMB752,000,000	–	100%	Property development
濟南西創置業有限公司 Xichuang (Jinan) Property Company Limited	18 January 2017	RMB18,000,000	–	100%	Property development
濟南西實置業有限公司 Xishi (Jinan) Property Company Limited	18 January 2017	RMB18,000,000	–	100%	Property development
四川雍橋置業有限公司 Yongqiao (Sichuan) Property Company Limited	26 October 2009	RMB100,000,000	–	100%	Property development
南京東潤置業有限公司 Dongrun (Nanjing) Property Company Limited	1 April 2017	RMB640,000,000	–	100%	Property development
溫州國鵬置業有限公司 Guopeng (Wenzhou) Property Company Limited	31 October 2017	RMB100,000,000	–	100%	Property development
安徽省陽光半島文化發展有限公司 Yangguang Bandao (Anhui) Real Estate Company Limited	31 August 2018	RMB5,386,050,000	–	100%	Property development

The names of certain of the companies referred to in these consolidated financial statements represent management's best effort in translation of the Chinese names of these companies as no English names have been registered or available.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

(a) Non-controlling Interest

The Group held 63.46% equity interest of Hengda Real Estate, and set out below is the summarised financial information for Hengda Real Estate which non-controlling interests are material to the Group. The amounts disclosed for Hengda Real Estate are before inter-company elimination.

Summarised consolidated balance sheet

	31 December	
	2018	2017
	RMB million	RMB million
Current assets	**1,422,411**	1,384,781
Current liabilities	**(1,027,577)**	(971,551)
Net current assets	**394,834**	413,230
Non-current assets	**213,150**	185,281
Non-current liabilities	**(285,735)**	(339,838)
Non-current net liabilities	**(72,585)**	(154,557)
Net assets	**322,249**	258,673

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

(a) Non-controlling Interest (Continued)

Summarised consolidated statement of comprehensive income

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Revenue	**432,368**	299,543
Profit for the year	**72,239**	41,998
Other comprehensive income	**204**	1,808
Total comprehensive income	**72,443**	43,806
Total comprehensive income attributable to shareholders of Hengda Real Estate	**66,078**	41,004
Total comprehensive income attributable to non-controlling interest	**6,365**	2,802

Summarised consolidated statement of cash flows

	Year ended 31 December	
	2018 RMB million	2017 RMB million
Cash flows of operating activities, net	**134,655**	(78,398)
Cash flows of investing activities, net	**(44,886)**	(42,775)
Cash flows of financing activities, net	**(120,288)**	83,486
Exchange loss on cash and cash equivalents	**371**	(254)
Net decrease in cash and cash equivalents	**(30,148)**	(37,941)

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

(as at 31 December)

	2014 RMB Million	2015 RMB Million	2016 RMB Million	2017 RMB Million	**2018 RMB Million**
ASSETS					
Non-current assets	90,812	144,691	237,233	238,805	**304,277**
Current assets	383,650	612,344	1,113,635	1,522,947	**1,575,751**
Total assets	474,462	757,035	1,350,868	1,761,752	**1,880,028**
Total equity	112,378	142,142	192,532	242,208	**308,626**
LIABILITIES					
Non-current liabilities	93,847	158,212	424,942	434,689	**411,946**
Current liabilities	268,237	456,681	733,394	1,084,855	**1,159,456**
Total liabilities	362,084	614,893	1,158,336	1,519,544	**1,571,402**
Total equity and liabilities	474,462	757,035	1,350,868	1,761,752	**1,880,028**

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(for the year ended 31 December)

	2014 RMB Million	2015 RMB Million	2016 RMB Million	2017 RMB Million	**2018** **RMB Million**
Revenue	111,398	133,130	211,444	311,022	**466,196**
Cost of sales	(79,614)	(95,717)	(152,022)	(198,760)	**(297,249)**
Gross Profit	31,784	37,413	59,422	112,262	**168,947**
Fair value gains on investment properties	9,393	12,859	5,124	8,513	**1,343**
Other gains/(losses),net	534	323	6,986	(6,022)	**2,645**
Other income	1,431	2,262	4,937	5,547	**6,694**
Selling and marketing costs	(9,154)	(13,325)	(15,983)	(17,210)	**(18,086)**
Administrative expenses	(4,039)	(6,139)	(9,598)	(12,176)	**(14,813)**
Impairment losses on financial assets	—	—	—	(70)	**(137)**
Other operating expenses	(1,396)	(1,077)	(2,663)	(5,599)	**(5,179)**
Operating profit	28,553	32,316	48,225	85,245	**141,414**
Fair value gain on financial assets at fair value through profit or loss	3,757	2,515	141	(437)	**51**
Fair value loss on derivative financial liabilities	—	—	—	(820)	**797**
Finance (costs)/income, net	(1,015)	(2,994)	(11,301)	(7,917)	**(14,623)**
Share of gains/(losses) of investments accounted for using equity method	(104)	(392)	(203)	1,402	**(874)**
Profit before income tax	31,191	31,445	36,862	77,473	**126,765**
Income tax expenses	(13,175)	(14,105)	(19,245)	(40,424)	**(60,218)**
Profit for the year	18,016	17,340	17,617	37,049	**66,547**
Other comprehensive income, net of tax	157	30	(4,892)	3,861	**155**
Total comprehensive income for the year	18,173	17,370	12,725	40,910	**66,702**
Total comprehensive income attributable to:					
Shareholders of the Company	12,761	10,490	199	27,432	**37,502**
Holders of perpetual capital instruments	4,339	5,088	10,646	—	**—**
Non-controlling interests	1,073	1,792	1,880	13,478	**29,200**
Total comprehensive income for the year	18,173	17,370	12,725	40,910	**66,702**

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