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

(incorporated in Hong Kong with limited liability)

(Stock Code: 00081)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

FINANCIAL HIGHLIGHTS

1. The contracted property sales of the Group and its associates and joint ventures for the year increased to HK\$50,540.2 million (2017: HK\$37,068.3 million), representing an increase of 36.3% against last year, which corresponded to an aggregated contracted area of 3,998,500 sq.m. (2017: 3,411,900 sq.m.).
2. For the year ended 31 December 2018, the Group recorded revenue of HK\$25,571.3 million, 26.1% increase comparing with last year. Gross profit and margin for the year were HK\$7,437.7 million and 29.1% respectively, comparing with HK\$4,068.5 million and 20.1% respectively in last year.
3. Operating profit for the year amounted to HK\$6,156.5 million, representing an increase of 94.4% against last year. Profit attributable to owners of the Company was HK\$2,427.3 million, 90.9% higher than last year. Basic earnings per share were HK73.1 cents (2017 restated: HK53.6 cents).
4. During the year, the Group extended its business to three cities with high growth potential, which were Liuzhou (Guangxi province), Baotou (Inner-Mongolia) and Jining (Shandong province). The Group bagged a total of twenty five land parcels in fourteen cities with a total gross floor area of 5,022,700 sq.m. (attributable to the Group: 4,660,500 sq.m.) for consideration of RMB19,599.6 million.
5. As at 31 December 2018, the gross floor area of total land bank of the Group and its joint ventures reached 21,340,000 sq.m., of which, 252,900 sq.m. was held by joint ventures. The gross floor area of land bank attributable to the Group (including the interests in joint ventures) was 19,976,500 sq.m..
6. In February 2018, the Group successfully raised a net proceeds of HK\$4,607.7 million (net of expenses) by way of rights issue on the basis of one rights share for every two shares.
7. Cash and bank balances plus restricted cash and deposits were HK\$33,264.2 million in total, 40.3% higher as compared with the last financial year end (HK\$23,702.3 million). As at 31 December 2018, the Group was at net cash position (net gearing ratio as at 31 December 2017: 26.8%).
8. The Board recommended the payment of final dividend of HK11.2 cents per share for the year ended 31 December 2018 (2017: HK3 cents).

The board of directors (the “Board”) of China Overseas Grand Oceans Group Limited (the “Company”) is pleased to announce the annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2018.

CHAIRMAN’S STATEMENT

INTRODUCTION

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

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

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

In view of the complicated operating environment in the year, the Group remained committed to its prudence approach and was dedicated to maintain ample liquidity. In February 2018, thanks to the overwhelming support of the shareholders, the Group raised a net proceeds of HK\$4,607.7 million (net of expenses) by way of rights issue on the basis of one rights share for every two shares and in June 2018, the Group successfully completed the issuance of a 3-year US\$500 million guaranteed notes. The proceeds from the rights issue were mainly applied for repayment of bank loans while the money from the guaranteed notes issued was largely used for refinancing the US\$400 million guaranteed notes due in January 2019. The Group firmly secured its refinancing funding needs in an unclear market from the exercises. Moreover, the amount raised from rights issue significantly enhanced the capital base of the Group and improved its financial muscles to propel its business plan and counter the challenges in a dynamic environment.

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

customer services so as to bring additional values to the customers and maintain its leading market position.

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

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

DIVIDEND

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

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

PROSPECTS

The Economy

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

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

Real Estate Development

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

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

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

formulated for each city. Under the guidance of maintaining stability, it is believed that the property control policy in third-tier cities may be progressively relaxed. As skeptical atmosphere has been improving, the property market will be able to grow in a stable manner.

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

Group Strategy

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

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

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

As a reputable property developer in the market, the Group believes that it is of paramount importance to build up and maintain a scaled high quality land bank at competitive prices for sustainable growth and maximizing shareholders' returns in long term. Stick firmly to its prudent and cautious investment strategies, the Group closely monitors land acquisition opportunities in different regions for continuous expansion. The Group not only replenishes land in its well-performed cities, but also will extend its footprints, with thoughtful analysis. The Group will actively explore to penetrate into other new cities, mainly regional economic centres closed to metropolitan areas and with high growth potential, and districts where synergies can be achieved with the cities being operated.

On top of open market land auctions, the Group considers to diversify its land acquisition channels in order to maintain a balanced land bank with reasonable investment returns. For right property projects, the Group will consider to develop jointly with reliable business partners to broaden its earnings base and balance its risk.

Adhere to the principle of customer-oriented, the Group dedicates to providing customers with good products and services. Measures will be taken to improve the quality of products and services continuously, and enhance customer satisfaction and loyalty in order to accumulate loyal customers for sustainable development of the Group in the future.

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

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

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

Being a responsible corporation, the Group maintains professional and prudent financial management of the financial resources and will continue to enhance its financial management capability. Since liquidity is critical to a capital intensive business, cashflow will be monitored closely while debt structure and profile will be reviewed regularly and optimized continuously. The Group will closely monitor the impacts from the external political and economic environment, volatility of exchange rate of RMB, and national policy changes to the business operations.

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

APPRECIATION

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

China Overseas Grand Oceans Group Limited

Yan Jianguo

Chairman and Non-Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS**BUSINESS REVIEW****REVENUE AND OPERATING RESULTS**

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

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

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

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

was handover up to the year ended 31 December 2018.

As the US Federal Reserve raised interest rates four times in 2018, the Group's three-year term interest rate swap contract with notional amount of US\$40.0 million (swap the interest rate from floating basis of 3-month London Interbank Offered Rate plus 1.515% to fixed rate at 3.2% per annum) recognized a fair value gain of a derivative financial instrument of HK\$2.5 million (2017: HK\$2.0 million) in consolidated income statement for the year.

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

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

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

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

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

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

LAND BANK

The Group's management believes that a sizable and quality land bank is one of the most important assets to a property developer. For persisted growth, the Group extended its business to three new cities with high growth potential, which were Liuzhou (Guangxi

province), Baotou (Inner-Mongolia) and Jining (Shandong province). The Group bagged a total of twenty five land parcels in fourteen cities in the year, in the districts of Liuzhou, Yancheng, Baotou, Lanzhou, Nantong, Hefei, Ganzhou, Hohhot, Jining, Huizhou, Jilin, Yinchuan, Nanning and Yangzhou with a total gross floor area of 5,022,700 sq.m. (attributable to the Group: 4,660,500 sq.m.) for consideration of RMB19,599.6 million.

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

SEGMENT INFORMATION

PROPERTY SALES AND DEVELOPMENT

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

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

Contracted Property sales from major projects during the year:

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

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

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

Recognized revenue from major projects during the year:

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

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

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

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

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

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

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

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

PROPERTY LEASING

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

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

At year end date, the occupancy rates for China Overseas International Center in Xicheng District, Beijing and the scientific research office building in Zhang Jiang High-tech Zone in Shanghai were 88% (31 December 2017: 90%) and 87% (31 December 2017: 90%) respectively. The Group wholly owns the Beijing properties while it holds 65% of the Shanghai project.

FINANCIAL RESOURCES AND LIQUIDITY

The Group has consistently adopted prudent financial management approach and its financial condition remained healthy. The Company and its subsidiaries have gained multiple accesses to funds from both investors and financial institutions in China and international market to meet its requirements in working capital, refinancing and project development.

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

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

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

HK\$25,531.2 million as compared to the end of last year.

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

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

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

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

Taking into account of the unutilized bank credit facilities available to the Group of HK\$8,278.5 million, the Group's total available funds (including restricted cash and deposits of HK\$7,902.6 million) reached HK\$41,542.7 million as at 31 December 2018. The operational and financial position of the Group remains healthy. The Group would ensure

continual fulfillment of the financial covenants as agreed with different financial institutions and has sufficient resources to satisfy its commitment and working capital needs.

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

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

As a result of the initial adoption of HKFRS 15 during the year, the opening balance of the owner's equity of the Company as at 1 January 2018 has an one-off adjustment of an increase of HK\$448.9 million. The amount, coupled with the net proceeds of HK\$4,607.7 million raised from the rights issue, increased the equity interests of the owner of the Company by HK\$5,056.6 million.

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

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

The Group regularly re-evaluates its operational and investment position and endeavour to improve its cash flow and minimize its financial risks.

FOREIGN EXCHANGE EXPOSURE

As the Group conducted its sales, receivables and payables, expenditures and part of the borrowings in RMB for its property development business in China, the management considered a natural hedge mechanism existed in that operations. However, as at 31 December 2018, about 46.9% and 53.1% of the Group's total borrowings (including the guaranteed notes) were denominated in RMB and Hong Kong Dollar/US Dollar respectively. Hence, take into account of the debt financing structure, the Group is subject to foreign exchange risk from the volatility of RMB exchange rate.

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

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

COMMITMENTS AND GUARANTEE

As at 31 December 2018, the Group had commitments totaling HK\$14,931.6 million which related mainly to land costs, property development and construction works. In addition, the Group issued guarantees to banks totaling HK\$33,704.1 million (equivalent to RMB29,531.3 million) for facilitating end-user mortgages in connection with its property sales in China as a usual commercial practice and a credit facility granted to a joint venture.

CAPITAL EXPENDITURE AND CHARGES ON ASSETS

The Group had capital expenditures totaling HK\$73.9 million approximately during the year, mainly referred to additions in hotel construction in progress.

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

EMPLOYEES

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

The Group is keen to motivate and retain talent and reviews the remuneration policies and packages on a regular basis to recognize employee contributions and respond to changes in the employment market. The total staff costs incurred for the year ended 31 December 2018 was approximately HK\$704.5 million (2017: HK\$580.5 million). The pay levels of the employees are determined based on their responsibilities, performance and the prevailing market condition. Discretionary bonus was paid to employees based on individual

performance while other remuneration and benefits, including the provident fund contributions/ retirement pension scheme, remained at appropriate levels. Different trainings and development opportunities continued to be offered to sharpen employees' capabilities to meet the pace of business growth.

KEY RISKS FACTORS AND UNCERTAINTIES

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

INVESTMENT RISK

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

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

DEBT REPAYMENT RISK

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

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

FOREIGN EXCHANGE RISK

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

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

MARKET RISK

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

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

PRODUCT QUALITY RISK

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

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	4	25,571,306	20,277,831
Cost of sales and services provided		(18,133,573)	(16,209,323)
Gross profit		7,437,733	4,068,508
Other income		437,757	198,629
Distribution and selling expenses		(841,138)	(675,762)
Administrative expenses		(722,233)	(610,130)
Other operating expenses		(160,334)	(7,704)
Other gains or losses			
Fair value gain on investment properties		-	191,830
Gain on disposal of investment properties		2,173	542
Change in fair value of a derivative financial instrument		2,493	1,974
Write-off of available-for-sale financial assets		-	(535)
Operating profit		6,156,451	3,167,352
Finance costs		(92,266)	(32,500)
Share of results of associates		12,239	57,153
Share of results of joint ventures		266,127	(9,854)
Profit before income tax	6	6,342,551	3,182,151
Income tax expense	7	(3,841,015)	(1,920,417)
Profit for the year		2,501,536	1,261,734
Profit/(Loss) for the year attributable to:			
Owners of the Company		2,427,326	1,271,398
Non-controlling interests		74,210	(9,664)
		2,501,536	1,261,734
		HK Cents	HK Cents (Restated)
Earnings per share	9		
Basic		73.1	53.6
Diluted		73.1	53.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
Assets and liabilities			
Non-current assets			
Investment properties		2,667,576	2,835,203
Property, plant and equipment		1,164,785	1,187,437
Prepaid lease rental on land		301,287	325,367
Intangible assets		3,319	8,117
Interests in associates		26,983	135,907
Interests in joint ventures		697,439	449,129
Amount due from a joint venture		-	305,057
Financial assets at fair value through other comprehensive income		1,141	-
Available-for-sale financial assets		-	1,196
A derivative financial instrument		4,467	1,974
Deferred tax assets		184,150	345,958
		5,051,147	5,595,345
Current assets			
Inventories of properties		67,682,662	54,414,394
Other inventories		1,861	2,060
Contract assets	3.1	15,986	-
Trade and other receivables, prepayments and deposits	10	10,151,731	9,795,746
Prepaid lease rental on land		9,122	9,562
Amount due from an associate		68,108	68,094
Amount due from a joint venture		291,032	-
Amounts due from non-controlling interests		465,936	353,678
Tax prepaid		1,267,506	1,382,614
Restricted cash and deposits		7,902,629	7,553,007
Cash and bank balances		25,361,554	16,149,246
		113,218,127	89,728,401
Current liabilities			
Trade and other payables	11	10,821,294	9,639,438
Contract liabilities	3.1	43,282,504	-
Sales deposits received	3.1	-	30,820,778
Amounts due to associates		26,631	176,876
Amounts due to joint ventures		1,345,871	1,234,203
Amounts due to non-controlling interests		2,333,114	613,424
Amounts due to related companies		346,229	4,852,569
Guaranteed notes payable		3,211,357	-
Taxation liabilities		3,463,225	2,276,077
Borrowings		6,260,146	4,911,049
		71,090,371	54,524,414
Net current assets		42,127,756	35,203,987
Total assets less current liabilities		47,178,903	40,799,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities			
Borrowings		19,271,087	19,300,789
Guaranteed notes payable	12	3,924,376	3,159,180
Amount due to a related company		85,627	89,754
Deferred tax liabilities		3,619,231	3,786,595
		26,900,321	26,336,318
Net assets		20,278,582	14,463,014
Capital and reserves			
Share capital	13	6,751,682	2,144,018
Other reserves		(549,428)	788,971
Retained profits		12,862,509	10,641,452
Proposed dividend	8(a)	383,416	102,701
Equity attributable to owners of the Company		19,448,179	13,677,142
Non-controlling interests		830,403	785,872
Total equity		20,278,582	14,463,014

1. GENERAL INFORMATION

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

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

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

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

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

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

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

* English translation is for identification only.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair value.

Save as described in note 3 “Adoption of New or Revised HKFRSs”, the accounting policies used in preparing the consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2017.

3. ADOPTION OF NEW OR REVISED HKFRSs

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

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

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

The Group considers that the adoption of these new standards, amendments and interpretations has no material impact on the Group's results of operations and financial position except for HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers as described below.

HKFRS 9 Financial Instruments

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 9 Financial Instruments (Continued)

i) Classification and measurement of financial instruments

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

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 9 Financial Instruments (Continued)

i) Classification and measurement of financial instruments (Continued)

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

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 9 Financial Instruments (Continued)

i) Classification and measurement of financial instruments (Continued)

Notes:

- a) As at 1 January 2018, investment in unlisted equity instruments were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. These unlisted equity instruments have no quoted price in an active market. The Group intends to hold these unlisted equity instruments for long-term strategic purposes. In addition, the Group has designated such unquoted equity instruments at the date of initial application of HKFRS 9 as measured at fair value through other comprehensive income. In the opinion of the directors, the previous carrying amount of the unlisted equity instruments are not materially different from its fair value as at 1 January 2018.
- b) The derivative financial instruments, being the interest rate swap contract, was classified and measured at fair value through profit or loss under HKAS 39. Such derivative financial instrument continues to be classified and measured at fair value through profit or loss upon adoption of HKFRS 9.
- c) The Group's trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests, restricted cash and deposits and cash and bank balances were previously classified as loans and receivables and measured at amortized cost under HKAS 39. These financial assets meet the "solely payments of principal and interest" criterion and it is the Group's business model to hold these financial assets to collect their contractual cash flows. Accordingly, they are classified as financial assets at amortized cost and will continue to be subsequently measured at amortized cost upon the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the expected credit loss "ECL" provision and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with the principles of HKFRS 15. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 9 Financial Instruments (Continued)

ii) Impairment of financial assets

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

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

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

The initial adoption of HKFRS 9 has no material impact on the Group's loss allowance as at 1 January 2018.

iii) Hedge accounting

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

iv) Transition

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 9 Financial Instruments (Continued)

iv) Transition (Continued)

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

- The determination of the business model within which a financial asset is held; and
- The designation of investment in unlisted equity instruments not held for trading as financial assets at fair value through other comprehensive income.

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

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

(i) Timing of revenue recognition

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

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

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- (c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

(i) **Timing of revenue recognition (Continued)**

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

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

Impact on revenue recognition for sales of properties

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

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

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

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

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

(ii) Significant financing component

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

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

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

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

(iii) Costs incurred to obtain a contract

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

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

(iv) Presentation of contract liabilities

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

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

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

<i>Line items in the consolidated income statement for the year ended</i>	Increase/(Decrease)
<i>31 December 2018 impacted by the adoption of HKFRS 15</i>	HK\$'000
Revenue	1,797,382
Cost of sales and services provided	1,055,219
Gross profit	742,163
Distribution and selling expenses	(8,369)
Administrative expenses	(1,186)
Operating profit	751,718
Share of results of joint ventures	52,845
Profit before income tax	804,563
Income tax expense	372,460
Profit for the year	432,103
Profit attributable to owners of the Company	417,803
Earnings per share	Increase
Basic	HK Cents
Diluted	12.6
	12.6
<i>Line items in the consolidated statement of comprehensive income for the</i>	Increase/(Decrease)
<i>year ended 31 December 2018 impacted by the adoption of HKFRS 15</i>	HK\$'000
Other comprehensive income for the year	(42,632)
Total comprehensive income for the year	389,471
Total comprehensive income attributable to owners of the Company	376,537

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

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

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

² The mandatory effective date will be determined

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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

HKFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. The Group leases certain office premises, quarters and shopping mall operating right under operating lease arrangement, which are currently accounted for as operating leases. These arrangements meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding lease liability in respect of the leases upon adoption of HKFRS 16. In the consolidated income statement, as the leases will be capitalized in the future, operating lease expense will no longer be recorded for these leases while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. In addition, more quantitative and qualitative disclosures about the leases will be made following the requirements of HKFRS 16.

The Group anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, except for HKFRS 16 Leases, the Group considers that other new and revised HKFRSs may result in changes in accounting policies but are unlikely to have material impact on the Group's results of operations and financial position.

4. REVENUE

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

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

5. SEGMENT INFORMATION

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

- | | | |
|-------------------------------------|---|--|
| Property investment and development | — | This segment constructs residential and commercial properties in the PRC. Part of the business is carried out through associates and joint ventures. |
| Property leasing | — | This segment holds commercial units located in the PRC for leasing to generate rental income and gain from appreciation in the properties' values in the long term. Part of the business is carried out through a joint venture. |
| Other segment | — | This segment mainly engages in hotel operations and generates service fee income in relation to hotel operation and other ancillary services. |

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

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

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

Disaggregation of revenue by timing of revenue recognition

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

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

5. SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue by timing of revenue recognition (Continued)

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

Segment results, segment assets and segment liabilities

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

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
<i>For the year ended 31 December 2018</i>				
Reportable segment revenue	25,274,071	223,361	73,874	25,571,306
Reportable segment profit/(loss)	6,268,275	167,342	(16,727)	6,418,890
Corporate income				88,729
Change in fair value of a derivative financial instrument				2,493
Finance costs				(92,266)
Other corporate expenses				(75,295)
Profit before income tax				6,342,551

5. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
As at 31 December 2018				
Reportable segment assets	109,114,549	2,948,726	1,175,670	113,238,945
Tax assets				1,451,656
Corporate assets [^]				3,578,673
Total consolidated assets				118,269,274
Reportable segment liabilities	57,615,314	102,136	13,020	57,730,470
Tax liabilities				7,082,456
Borrowings				25,531,233
Amounts due to related companies				431,856
Guaranteed notes payable				7,135,733
Other corporate liabilities				78,944
Total consolidated liabilities				97,990,692
For the year ended 31 December 2017				
Reportable segment revenue	20,004,650	206,614	66,567	20,277,831
Reportable segment profit/(loss)	2,951,018	365,664	(28,454)	3,288,228
Corporate income				671
Change in fair value of a derivative financial instrument				1,974
Finance costs				(32,500)
Other corporate expenses				(76,222)
Profit before income tax				3,182,151
As at 31 December 2017				
Reportable segment assets	88,483,940	3,182,074	1,191,963	92,857,977
Tax assets				1,728,572
Corporate assets [^]				737,197
Total consolidated assets				95,323,746
Reportable segment liabilities	42,310,717	95,875	15,354	42,421,946
Tax liabilities				6,062,672
Borrowings				24,211,838
Amounts due to related companies				4,942,323
Guaranteed notes payable				3,159,180
Other corporate liabilities				62,773
Total consolidated liabilities				80,860,732

[^] Corporate assets as at 31 December 2018 mainly included property, plant and equipment, prepaid lease rental on land, trade and other receivables, prepayments and deposits and cash and bank balances of HK\$138,542,000 (2017: HK\$155,155,000), HK\$113,755,000 (2017: HK\$123,022,000), HK\$59,333,000 (2017: HK\$395,525,000) and HK\$3,262,575,000 (2017: HK\$61,518,000) respectively which are managed on a group basis.

5. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

Other information

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

For the year ended 31 December 2017

Interest income	176,168	1,264	43	671	178,146
Depreciation and amortization	7,903	5,445	26,257	15,202	54,807
Fair value gain on investment properties	-	191,830	-	-	191,830
Gain on disposal of investment properties	-	542	-	-	542
Gain on disposal of property, plant and equipment	431	-	28	-	459
Write-off of property, plant and equipment	194	-	6,409	-	6,603
Change in fair value of a derivative financial instrument	-	-	-	1,974	1,974
Write-off of available-for-sale financial assets	-	-	535	-	535
Share of profit of associates	57,153	-	-	-	57,153
Share of (loss)/profit of joint ventures	(28,734)	18,880	-	-	(9,854)
Additions to specified non-current assets [#]	58,011	46	232,697	218	290,972

As at 31 December 2017

Interests in associates	135,907	-	-	-	135,907
Interests in joint ventures	323,845	125,284	-	-	449,129

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

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

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

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

Information about major customer

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

6. PROFIT BEFORE INCOME TAX

	2018 HK\$'000	2017 HK\$'000
Profit before income tax is arrived at after charging:		
Amortization:		
Prepaid lease rental on land	9,495	9,256
Intangible assets #	4,606	4,490
Depreciation of property, plant and equipment	40,726	41,061
Total amortization and depreciation	54,827	54,807

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

7. INCOME TAX EXPENSE

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

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

7. INCOME TAX EXPENSE (CONTINUED)

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

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

8. DIVIDENDS

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

	2018 HK\$'000	2017 HK\$'000
Interim dividend – HK\$0.03 (2017: HK\$0.01) per ordinary share	102,701	22,822
Proposed final dividend – HK\$0.112 (2017: HK\$0.03) per ordinary share (<i>note</i>)	383,416	102,701
	486,117	125,523

Note:

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

The final dividend in respect of financial year ended 31 December 2017 of HK\$102,701,000 was calculated based on 3,423,360,000 ordinary shares, which is the total number of ordinary shares in issue upon the completion of the Rights Issue as further detailed in note 13.

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

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

9. EARNINGS PER SHARE

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

Earnings	2018 HK\$'000	2017 HK\$'000
Profit for the year attributable to owners of the Company	2,427,326	1,271,398
Weighted average number of ordinary shares	2018 '000	2017 '000 (Restated)
Weighted average number of ordinary shares in issue during the year	3,322,354	2,370,018

9. EARNINGS PER SHARE (CONTINUED)

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share represents the weighted average number of ordinary shares in issue in the respective years, after taking into account of the bonus element in the Rights Issue which was completed on 5 February 2018 as set out in note 13.

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

Diluted earnings per share was the same as the basic earnings per share for the year ended 31 December 2018 and 2017 as there were no dilutive potential ordinary shares in existence during both years.

10. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018 HK\$'000	2017 HK\$'000
Trade receivables, net	74,083	38,191
Other receivables, net	2,526,867	1,714,138
Prepayments and deposits	7,550,781	8,043,417
	10,151,731	9,795,746

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

	2018 HK\$'000	2017 HK\$'000
30 days or below	71,363	1,116
31–60 days	62	503
61–90 days	81	508
91–180 days	1,361	464
181–360 days	122	17
Over 360 days	1,094	35,583
	74,083	38,191

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

As at 31 December 2018, no material provision was made against the gross amount of trade receivables, other receivables and contract assets.

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

11. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	9,162,955	8,436,569
Other payables and accruals	1,418,405	922,317
Deposits received	239,934	280,552
	10,821,294	9,639,438

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

	2018 HK\$'000	2017 HK\$'000
30 days or below	2,771,902	3,145,217
31–60 days	325,291	230,550
61–90 days	356,028	121,284
91–180 days	866,930	719,689
181–360 days	1,503,213	1,443,695
Over 360 days	3,339,591	2,776,134
	9,162,955	8,436,569

12. GUARANTEED NOTES PAYABLE

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

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

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

13. SHARE CAPITAL

	Number of ordinary shares '000	HK\$'000
Issued and fully paid		
Balance at 1 January 2017, 31 December 2017 and 1 January 2018	2,282,240	2,144,018
Issue of shares under Rights Issue (<i>Note</i>)	1,141,120	4,607,664
Balance at 31 December 2018	3,423,360	6,751,682

13. SHARE CAPITAL (CONTINUED)

Note:

On 7 November 2017, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$4,655.8 million by way of rights issue of approximately 1,141,120,000 rights shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK\$4.08 per rights share (the “Rights Issue”).

The Rights Issue was completed on 5 February 2018 and, with related share issue expenses amounting to HK\$48,105,000, net proceeds of approximately HK\$4,607,664,000 were raised by the Company. The number of issued ordinary shares of the Company was increased to approximately 3,423,360,000 shares and the share capital of the Company was increased from HK\$2,144,018,000 to HK\$6,751,682,000.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK11.2 cents per share for the year ended 31 December 2018. Together with an interim dividend of HK3 cents per share, the total dividend for the whole year amounted to HK14.2 cents per share, HK10.2 cents increase compared with the total dividend of HK4 cents per share for the previous year.

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company (the “AGM”) and the final dividend warrant is expected to be despatched to the shareholders of the Company on 4 July 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders’ eligibility to attend and vote at the AGM, and entitlement to the proposed final dividend, the Company’s Register of Members will be closed as set out below:

(i) For determining eligibility to attend and vote at the AGM:

- | | |
|---|--|
| - Latest time to lodge transfer documents for registration with the Company’s share registrar | At 4:30 p.m. on 5 June 2019 |
| - Closure of Register of Members | 6 June 2019 to 12 June 2019
(both days inclusive) |
| - Record date | 12 June 2019 |

(ii) For determining entitlement to the final dividend:

- | | |
|---|------------------------------|
| - Ex-dividend date | 14 June 2019 |
| - Latest time to lodge transfer documents for registration with the Company’s share registrar | At 4:30 p.m. on 17 June 2019 |
| - Closure of Register of Members | 18 June 2019 |
| - Record date | 18 June 2019 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Company’s share registrar at Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 12 June 2019 at 11:00 a.m. at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong. The notice of the AGM, which constitutes part of a circular to shareholders of the Company, will be sent together with the 2018 Annual Report.

All shareholders of the Company are encouraged to attend the AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior management.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's external auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company has discussed and reviewed with management the annual results and consolidated accounts for the year ended 31 December 2018.

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

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

China Overseas Grand Oceans Finance IV (Cayman) Limited, a wholly-owned subsidiary of the Company, issued US\$500,000,000 4.875 per cent. guaranteed notes due 2021 on 1 June 2018. The guaranteed notes are listed on the Stock Exchange.

On 7 November 2017, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$4,655.8 million by way of rights issue of 1,141,119,947 rights shares (the "Rights Shares") on the basis of one Rights Share for every two shares held on 11 January 2018 at the subscription price of HK\$4.08 per Rights Share (the "Rights Issue"). With approval of the shareholders at the extraordinary general meeting of the Company held on 29 December 2017, the Company issued the Rights Shares on 5 February 2018. The net proceeds from the Rights Issue are approximately HK\$4,607.7 million (the "Net Proceeds").

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

For details of the Rights Issue, the change in use of proceeds and the utilisation of the Net Proceeds, please refer to the prospectus and announcements of the Company dated 12 January 2018, 2 February 2018 and 29 October 2018 respectively, and the section headed “Management Discussion and Analysis” of this announcement.

China Overseas Grand Oceans Finance II (Cayman) Limited, a wholly-owned subsidiary of the Company, redeemed the entire outstanding principal amount of the US\$400,000,000 5.125 per cent. guaranteed notes on the maturity date (i.e., 23 January 2019). The guaranteed notes were listed on the Stock Exchange prior to redemption at maturity.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct for dealings in securities of the Company by the Directors.

Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICE

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

Except for the deviation from code A.4.1, the Company has applied the corporate governance principles and complied with all the code provisions where applicable, some of the recommended best practices set out in Appendix 14 to the Listing Rules (“CG Code(s)”) for the year ended 31 December 2018.

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

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE WEBSITES OF THE STOCK EXCHANGE, THE COMPANY AND EQS TODAYIR LIMITED

This results announcement is published on the website of the Stock Exchange at <http://www.hkexnews.hk> under “Latest Information”, the Company’s website at <http://www.cogogl.com.hk> and the website of EQS TodayIR Limited at <http://www.todayir.com/en/showcases.php?code=81>.

The printed copy of the 2018 Annual Report will be sent to shareholders of the Company before mid of April 2019 and the soft copy of the 2018 Annual Report will be published on websites of the Stock Exchange, the Company and EQS TodayIR Limited in due course.

By Order of the Board

China Overseas Grand Oceans Group Limited

Yan Jianguo

Chairman and Non-Executive Director

Hong Kong, 20 March 2019

As at the date of this announcement, the Board comprises eight Directors, of which three are executive Directors, namely Mr. Zhang Guiqing, Mr. Paul Wang Man Kwan and Mr. Yang Lin; two non-executive Directors, namely Mr. Yan Jianguo and Mr. Billy Yung Kwok Kee, and three independent non-executive Directors, namely Dr. Timpson Chung Shui Ming, Mr. Jeffrey Lam Kin Fung and Mr. Dantes Lo Yiu Ching.