GDH 粵海

GUANGDONG INVESTMENT LIMITED
(粵 海 投 資 有 限 公 司)

(Incorporated in Hong Kong with limited liability)
(Stock Code: 0270)

2018 ANNUAL RESULTS ANNOUNCEMENT

Financial highlights for the year ended 31 December

	2018	2017	Changes
	HK$'000	HK$'000	%
Revenue	**13,363,600**	12,168,839	+9.8
Gain on bargain purchase	***296,737***	*1,212,514*	
Changes in fair value of investment properties	***230,102***	*431,752*	
Profit before tax	**6,894,646**	7,620,765	-9.5
Profit for the year attributable to owners of the Company	**5,015,119**	5,685,371	-11.8
Earnings per share – Basic	**HK 76.71 cents**	HK 88.04 cents	-12.9
Dividends per share			
Interim	**HK 16.00 cents**	HK 14.50 cents	
Proposed final	**HK 37.50 cents**	HK 34.00 cents	
	HK 53.50 cents	HK 48.50 cents	+10.3

CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2018

The board of Directors (the "Board") of Guangdong Investment Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with the comparative figures for 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	4	13,363,600	12,168,839
Cost of sales		(5,696,300)	(4,984,830)
Gross profit		7,667,300	7,184,009
Other income and gains	4	691,738	665,985
Gain on bargain purchase	4	296,737	1,212,514
Changes in fair value of investment properties		230,102	431,752
Selling and distribution expenses		(348,696)	(280,826)
Administrative expenses		(1,734,204)	(1,584,301)
Exchange differences, net		120,070	(57,489)
Other operating income/(expenses), net		(15,034)	58,161
Finance costs	6	(149,964)	(110,593)
Share of profits less losses of associates		136,597	101,553
PROFIT BEFORE TAX	5	6,894,646	7,620,765
Income tax expense	7	(1,393,558)	(1,617,111)
PROFIT FOR THE YEAR		5,501,088	6,003,654
Attributable to:			
Owners of the Company		5,015,119	5,685,371
Non-controlling interests		485,969	318,283
		5,501,088	6,003,654
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		HK76.71 cents	HK88.04 cents
Diluted		HK76.68 cents	HK87.96 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		7,017,886	7,484,561
Investment properties		16,949,174	16,037,772
Prepaid land lease payments		306,824	275,582
Goodwill		301,883	303,605
Investments in associates		3,676,701	3,679,684
Operating concession rights		13,047,462	14,113,313
Receivables under service concession arrangements		1,451,496	922,320
Receivables under a cooperative arrangement		414,701	-
Available-for-sale financial assets		-	5,555
Equity investment designated at fair value through other comprehensive income		10,191	-
Prepayments and other receivables		137,905	175,291
Deferred tax assets		252,019	158,733
Total non-current assets		43,566,242	43,156,416
CURRENT ASSETS			
Properties held for sale under development		5,831,502	5,748,595
Completed properties held for sale		5,053,081	417,595
Available-for-sale financial assets		-	8,093,040
Financial assets at fair value through profit or loss		7,399,210	-
Other financial assets at amortised cost		1,597,820	-
Tax recoverable		26,053	1,852
Inventories		180,939	172,741
Receivables under service concession arrangements		13,223	12,445
Receivables, prepayments and other receivables	10	1,118,991	1,099,700
Due from non-controlling equity holders of subsidiaries		66,670	66,113
Pledged bank deposits		42,278	68,242
Restricted bank balances		641,314	136,989
Cash and cash equivalents		7,645,121	7,565,286
Total current assets		29,616,202	23,382,598
CURRENT LIABILITIES			
Payables, accruals and other liabilities	11	(5,055,827)	(4,666,903)
Contract liabilities		(1,637,277)	-
Tax payables		(803,482)	(970,074)
Due to non-controlling equity holders of subsidiaries		(159,000)	(174,886)
Bank and other borrowings		(1,567,092)	(5,176,434)
Total current liabilities		(9,222,678)	(10,988,297)
NET CURRENT ASSETS		20,393,524	12,394,301
TOTAL ASSETS LESS CURRENT LIABILITIES - page 5		63,959,766	55,550,717

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2018

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

Notes:

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2018 and 2017 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated 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 Hong Kong Companies Ordinance (Chapter 622) and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course. The Company's auditor has reported on the consolidated financial statements for both years. The auditor's reports were 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 Hong Kong Companies Ordinance (Chapter 622).

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

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

1. BASIS OF PREPARATION (continued)

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement

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

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

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

1 AFS: Available-for-sale financial assets

2 FVOCI: Financial assets at fair value through other comprehensive income

3 FVPL: Financial assets at fair value through profit or loss

4 AC: Financial assets or financial liabilities at amortised cost

5 L&R: Loans and receivables

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement(continued)

Notes:

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

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

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

Presentation of contract assets and liabilities
Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Presentation of contract assets and liabilities (continued)

(i) Loyalty points programme

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

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

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

(ii) Consideration received from customers in advance

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Presentation of contract assets and liabilities (continued)

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

(i) The water resources segment engages in water distribution, sewage treatment, and construction of water supply and sewage treatment infrastructure for customers in the mainland of the People’s Republic of China (the “PRC” or “Mainland China”) and Hong Kong;

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

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

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

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

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

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

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

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

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

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

Intersegment sales are eliminated in full on consolidation.

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments

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

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

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

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

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

3. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

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

3. OPERATING SEGMENT INFORMATION (continued)

(b) Geographical information

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

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

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

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

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

(c) Information about a major customer

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

4. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of revenue is as follows:

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

	2018 HK$'000	2017 HK$'000
Other income and gains		
Bank interest income	165,232	288,174
Interest income from financial assets at fair value through profit or loss	259,120	-
Interest income from other financial assets at amortised cost	78,492	-
Interest income from receivables under a cooperative arrangement	12,731	-
Fair value gains on financial assets at fair value through profit or loss	39,250	-
Interest income from available-for-sale financial assets	-	153,317
Investment income from available-for-sale financial assets	-	60,749
Gain on disposal of a subsidiary	-	2,968
Others	136,913	160,777
	691,738	665,985
Gain on bargain purchase	296,737	1,212,514
	988,475	1,878,499

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

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018 HK$'000	2017 HK$'000
Cost of inventories sold*	1,249,343	1,049,967
Cost of services rendered*	3,183,453	2,818,490
Cost of properties sold*	251,327	127,986
Depreciation	504,463	483,909
Recognition of prepaid land lease payments	12,227	13,844
Amortisation of operating concession rights*	1,012,177	988,387
Impairment losses recognised /(reversed) for trade receivables, net^	(345)	1,840
Minimum lease payments under operating leases in respect of land and buildings	106,760	99,486
Contingent rents under operating leases	16,140	13,371
Auditor's remuneration	10,359	12,783
Employee benefit expenses:		
Wages and salaries (excluding directors' fee)	1,206,070	1,047,507
Equity-settled share option benefits	109	693
Pension scheme contributions	177,298	129,695
Less: Forfeited contributions	(128)	(39)
Net pension scheme contributions#	177,170	129,656
Less: Amount capitalised	(47,303)	(40,328)
	1,336,046	1,137,528
Gross rental income from investment properties	(1,151,415)	(1,047,166)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	158,020	130,742
Net rental income from investment properties	(993,395)	(916,424)
Loss on disposal of items of property, plant and equipment, net^	8,414	3,101
Government subsidies**^	(18,936)	(44,374)

* These costs and expenses are included in "Cost of sales" on the face of the consolidated statement of profit or loss.

** The government subsidies recognised during the year mainly represented subsidies received from certain government authorities in respect of the fulfilment of certain specific criteria by the Group.

As at 31 December 2018 and 2017, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years.

^ Included in "Other operating income/(expenses), net" on the face of the consolidated statement of profit or loss.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank and other borrowings	146,690	91,765
Interest on loans from the ultimate holding company	749	-
Interest expenses charged by fellow subsidiaries	20,940	18,828
Finance costs incurred	168,379	110,593
Less: Amount capitalised in properties held for sale under development and investment properties under construction	(18,415)	-
Finance costs charged for the year	149,964	110,593

The capitalised interest rate applied to funds borrowed and used for the development of properties is between 5.46% and 6.65% per annum (2017: Nil).

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC Corporate Income Tax Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%. Land appreciation tax ("LAT") has been provided in accordance with the requirements set forth in the relevant PRC laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation values, with certain allowable deductions.

	2018 HK$'000	2017 HK$'000
Current - Hong Kong		
Charge for the year	18,150	15,618
Overprovision in prior years	(197)	(80)
Current - Mainland China		
Charge for the year	1,606,010	1,439,053
Overprovision in prior years	(73,701)	(57)
Deferred tax	(156,704)	162,577
Total tax charge for the year	1,393,558	1,617,111

8. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim – HK16.0 cents (2017: HK14.5 cents) per ordinary share	1,046,051	947,984
Proposed final – HK37.5 cents (2017: HK34.0 cents) per ordinary share	2,452,000	2,223,000
	3,498,051	3,170,984

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The total final dividend payable is based on the total number of shares as at the date of approval of these financial statements by the board of directors which includes the shares issued subsequent to the end of the reporting period.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2018 HK$'000	2017 HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	5,015,119	5,685,371

	Number of shares 2018	2017
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	6,537,821,440	6,457,823,544
Effect of dilution of share options - weighted average number of ordinary shares assumed to have been issued at nil consideration	2,464,466	5,499,017
Weighted average number of ordinary shares during the year used in the diluted earnings per share calculation	6,540,285,906	6,463,322,561

10. RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

Included in the Group's receivables, prepayments and other receivables are trade receivables, net of impairments, from the Group's customers, which amounted to HK$616,140,000 (2017: HK$596,435,000) as at 31 December 2018. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The various group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water distribution, sewage treatment and electricity supply businesses. The Group has a certain concentration of credit risk whereby 14% (2017: 16%) of the total trade receivables was due from one customer. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest bearing.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	589,282	515,375
3 months to 6 months	2,299	45,956
6 months to 1 year	19,138	29,435
More than 1 year	11,021	13,204
	621,740	603,970
Less: Loss allowance	(5,600)	(7,535)
	616,140	596,435

11. PAYABLES, ACCRUALS AND OTHER LIABILITIES

Included in the Group's payables, accruals and other liabilities are trade payables. An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	2018 HK$'000	2017 HK$'000
Within 3 months	769,335	728,708
3 months to 6 months	31	385
6 months to 1 year	7,332	104
	776,698	729,197

12. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a)

	2018 HK$'000	2017 HK$'000
The Group's proportional share of guarantees given to a bank in connection with facilities utilised by an associate	55,924	58,619

As at 31 December 2018, the banking facilities granted to an associate subject to guarantees given to a bank by the Group and the other equity holders of the associate were in accordance with the equity holding ratio of each party. The facilities granted to the associate by bank was utilised to the extent of approximately HK$114,130,000 (2017: HK$119,630,000).

(b) As at 31 December 2018, the Group provided guarantees to certain banks in respect of mortgages granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties held for sale. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the relevant outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of the real estate ownership certificates. As at 31 December 2018, the Group's outstanding guarantees amounted to HK$370,276,000 (2017: HK$782,654,000) for these guarantees.

CHAIRMAN'S STATEMENT

RESULTS

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

DIVIDEND

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

REVIEW

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

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

PROSPECTS

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

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

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

HUANG Xiaofeng
Chairman
Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

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

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

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

BUSINESS OVERVIEW

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

Water Resources

Dongshen Water Supply Project

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

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

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

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

Other Water Resources Projects

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

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

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

Capacity of Water Resources Projects in Operation

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

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

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

<u>Capacity of Water Resources Projects under Construction</u>

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

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

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

Property Investment and Development

Mainland China

Teem Plaza

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

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

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

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

Tianjin Teem Shopping Mall

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

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

Panyu Wanbo CBD Project

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

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

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

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

GD Land

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

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

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

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

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

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

Hong Kong

Guangdong Investment Tower

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

Department Store Operation

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

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

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

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

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

Hotel Ownership, Operation and Management

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

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

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

Energy Projects

Zhongshan Power Project

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

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

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

Road and Bridge

Xingliu Expressway

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

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

Yinping PPP Project

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

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND OTHER FINANCIAL ASSETS AT AMORTISED COST

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

LIQUIDITY, GEARING AND FINANCIAL RESOURCES

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

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

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

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

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

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

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

Except for the Group's proportional share of guarantees given to a bank in connection with facilities utilised by an associate of approximately HK$56 million (2017: approximately HK$59 million) and the guarantees made to certain banks in relation to the mortgages of the properties sold of approximately HK$370 million (2017: approximately HK$783 million) as disclosed in note 12 of this announcement, there was no other material contingent liability as at 31 December 2018 and 2017.

CAPITAL EXPENDITURE

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE AND INTEREST RATES AND RELATED HEDGES

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

Macroeconomic Risk

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

Foreign Currency Risk

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

Market Competition Risk

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

Project Safety Management Risk

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

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

EMPLOYEE AND REMUNERATION POLICY

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

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

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

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

CORPORATE GOVERNANCE CODE

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

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

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Concord Room, 8th Floor, Renaissance Harbour View Hotel Hong Kong, One Harbour Road, Wanchai, Hong Kong on Monday, 17 June 2019 at 3:00 p.m. (the “2019 Annual General Meeting”).

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

ENTITLEMENT FOR FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK 37.5 cents per ordinary share for the year ended 31 December 2018 which is expected to be paid on or about Friday, 26 July 2019 to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Friday, 21 June 2019 subject to the final approval at the 2019 Annual General Meeting.

For the purpose of determining shareholders' entitlements to the proposed final dividend for the year ended 31 December 2018, the register of members of the Company will be closed on Friday, 21 June 2019 and no transfer of shares will be registered on that day. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at the above address not later than 4:30 p.m. on Thursday, 20 June 2019.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.gdi.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the abovementioned websites in due course.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 29 March 2019

** The English names are translations of their Chinese names, and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

As at the date of this announcement, the Board of the Company comprises four Executive Directors, namely, Mr. HUANG Xiaofeng, Mr. WEN Yinheng, Mrs. HO LAM Lai Ping, Theresa and Mr. TSANG Hon Nam; five Non-Executive Directors, namely, Mr. CAI Yong, Mr. ZHANG Hui, Ms. ZHAO Chunxiao, Mr. LAN Runing and Mr. LI Wai Keung; and five Independent Non-Executive Directors, namely, Dr. CHAN Cho Chak, John, Dr. the Honourable LI Kwok Po, David, Mr. FUNG, Daniel R., Dr. the Honourable CHENG Mo Chi, Moses and Mr. WU Ting Yuk, Anthony.