中國海外發展有限公司
CHINA OVERSEAS LAND & INVESTMENT LTD.

1979—2019
篤行四十載 匠心築未來

Stock Code: 00688

Striving with Determination for 40 Years
Forging Ahead Confidently on the New Journey

ANNUAL REPORT 2018

The Dynasty, Ningbo

Contents

Board of Directors and Committees

EXECUTIVE DIRECTORS

Yan Jianguo	*Chairman and Chief Executive Officer*
Luo Liang	
Guo Guanghui	(appointed w.e.f. 12 June 2018)
Nip Yun Wing	(resigned w.e.f. 3 April 2018)

NON-EXECUTIVE DIRECTOR

Chang Ying

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Kwong Siu
Fan Hsu Lai Tai, Rita
Li Man Bun, Brian David

AUTHORISED REPRESENTATIVES

Yan Jianguo	
Luo Liang	(appointed w.e.f. 3 April 2018)
Nip Yun Wing	(resigned w.e.f. 3 April 2018)

AUDIT AND RISK MANAGEMENT COMMITTEE

Li Man Bun, Brian David*
Lam Kwong Siu
Fan Hsu Lai Tai, Rita

REMUNERATION COMMITTEE

Lam Kwong Siu*
Fan Hsu Lai Tai, Rita
Li Man Bun, Brian David

NOMINATION COMMITTEE

Fan Hsu Lai Tai, Rita*
Lam Kwong Siu
Li Man Bun, Brian David

* *Committee Chairman*

Corporate Information

REGISTERED OFFICE

10/F., Three Pacific Place
1 Queen's Road East, Hong Kong
Telephone : (852) 2988 0666
Facsimile : (852) 2865 7517
Website : www.coli.com.hk

COMPANY SECRETARY

Edmond Chong

REGISTRAR AND TRANSFER OFFICE

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

INVESTOR RELATIONS

Corporate Communications Department
Telephone : (852) 2988 0666
Facsimile : (852) 2865 7517
E-mail : coli.ir@cohl.com

PUBLIC RELATIONS

Corporate Communications Department
Telephone : (852) 2988 0666
Facsimile : (852) 2865 7517
E-mail : coli.pr@cohl.com

LEGAL ADVISOR

Mayer Brown

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS (In Alphabetical Order)

Agricultural Bank of China
Bank of China
Bank of Communications Co., Ltd. Hong Kong Branch
Bank of Shanghai Co., Ltd
China Construction Bank Corporation
China Construction Bank (Asia) Corporation Limited
China Merchants Bank
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China
Nanyang Commercial Bank, Limited
Oversea-Chinese Banking Corporation Limited
Postal Savings Bank of China
Shanghai Pudong Development Bank Co., Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

Shareholders' Information and Financial Calendar

LISTING

The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("**SEHK**") and certain notes issued by the Company's subsidiaries are listed in SEHK and/or other stock exchange.

STOCK CODE

Shares

SEHK	:	00688
Bloomberg	:	688:HK
Reuters	:	0688.HK

FINANCIAL CALENDAR

Interim results announcement	:	23 August 2018
Share register closed	:	20 September 2018
Interim dividend paid	:	5 October 2018
Final results announcement	:	20 March 2019
Share register closed for annual general meeting	:	11 June 2019 to 14 June 2019 *(both days inclusive)*
Annual General Meeting	:	14 June 2019
Share register closed for final dividend	:	20 June 2019
Final dividend payable	:	5 July 2019

Corporate Structure

PROPERTY DEVELOPMENT*

- Mainland China
- Hong Kong
- Macau

COMMERCIAL PROPERTIES

- Mainland China
- Hong Kong
- Macau
- London

OTHER PROPERTY RELATED OPERATIONS

- Mainland China
- Hong Kong

* *Property development in 64 major cities in mainland China, including Beijing, Shanghai, Guangzhou, Shenzhen, Changchun, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Haikou, Hangzhou, Harbin, Jiangmen, Jinan, Kunming, Nanchang, Nanjing, Ningbo, Qingdao, Sanya, Shenyang, Suzhou, Taiyuan, Tianjin, Urumqi, Wanning, Wuhan, Wuxi, Xiamen, Xi'an, Yantai, Zhangzhou, Zhaoqing, Zhengzhou, Zhenjiang, Zhongshan, Zhuhai, Ezhou, Changzhou[#], Ganzhou[#], Hefei[#], Hohhot[#], Huangshan[#], Huizhou[#], Jilin[#], Jiujiang[#], Lanzhou[#], Nanning[#], Nantong[#], Shantou[#], Shaoxing[#], Weifang[#], Xining[#], Xuzhou[#], Yancheng[#], Yangzhou[#], Yinchuan[#], Zibo[#], Liuzhou[#], Baotou[#], Jining[#] as well as in Hong Kong and Macau*

[#] *The cities where China Overseas Grand Oceans Group Limited ("COGO") has operations*

Financial Highlights

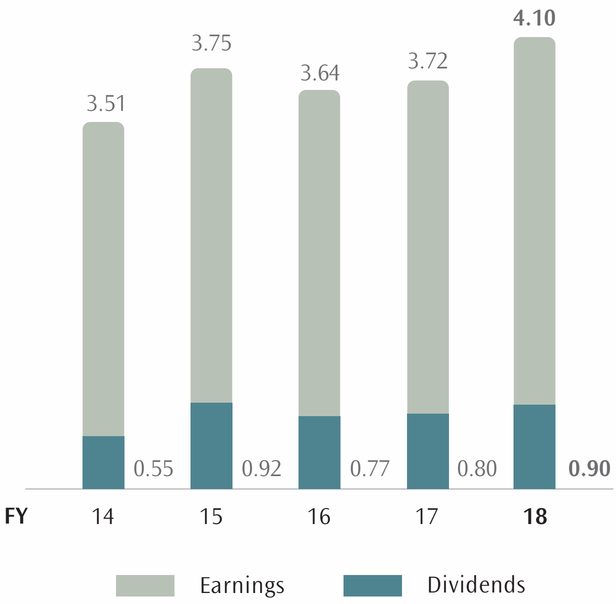
For the year ended 31 December	2018	2017	Change (%)
Financial Highlights *(HK$ billion)*			
Revenue	**171.46**	166.04	+3
Profit attributable to equity shareholders of the Company	**44.90**	40.77	+10
Contracted property sales[1]	**301.24**	232.07	+30
Financial Ratios			
Net gearing ratio *(%)*	**34**	28	+6[2]
Interest cover *(times)*	**8**	8	–[3]
Dividend payout *(%)*[4]	**27**	26	+1[2]
Financial Information per Share *(HK$)*			
Earnings	**4.10**	3.72	+10
Dividends	**0.90**	0.80	+13
— Interim dividend	**0.40**	0.35	+14
— Final dividend	**0.50**	0.45	+11
Net assets	**25.87**	24.25	+7
Land Reserves *(million sq m)*			
Development land bank[5]	**70.10**	63.75	+10

Notes:
1. *Representing China Overseas Land & Investment Limited (the "Company") and its subsidiaries (the "Group") together with its joint ventures and associates (collectively the "Group Series of Companies")*
2. *Change in percentage points*
3. *Change in number of times*
4. *After deducting the net gain after tax arising from changes in fair value of investment properties and gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition*
5. *Representing year end figures of the Group Series of Companies (excluding COGO)*

Financial Highlights (continued)

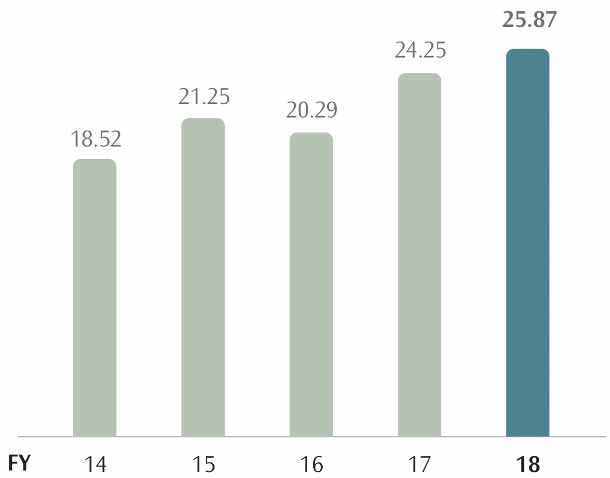
EARNINGS AND DIVIDENDS PER SHARE

HK$



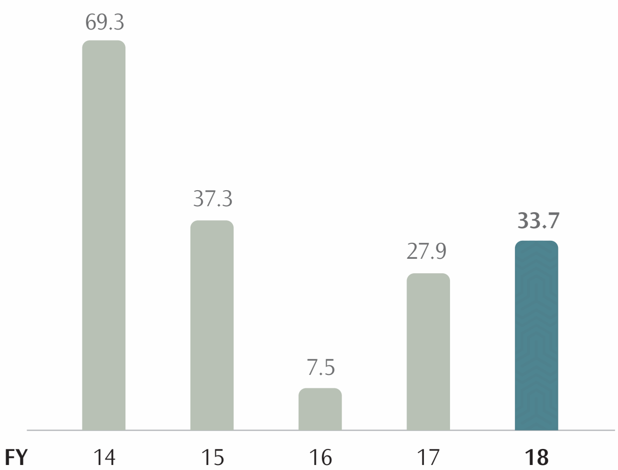
NET ASSETS PER SHARE

HK$



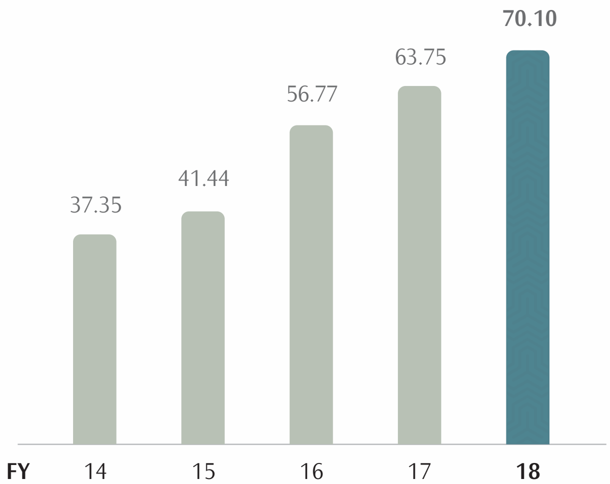
NET GEARING RATIO

%



LAND RESERVES*

million sq m



* *Representing the Group Series of Companies (excluding COGO)*

Group Financial Summary

KEY FINANCIAL INFORMATION AND RATIOS

Financial Year	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018 HK$**
Earnings per share	3.51	3.75	3.64	3.72	**4.10**
Dividends per share	0.55	0.92	0.77	0.80	**0.90**
— Interim dividend	0.20	0.20	0.35	0.35	**0.40**
— Special interim dividend	–	0.31*	–	–	**–**
— Final dividend	0.35	0.41	0.42	0.45	**0.50**
Net assets per share	18.52	21.25	20.29	24.25	**25.87**
Net gearing ratio (%) $\frac{\text{Net debt}}{\text{Shareholders' funds}}$	69.3	37.3	7.5	27.9	**33.7**
Interest cover (times) $\frac{\text{Operating profit} - \text{Total interest income}}{\text{Interest expense**}}$	4	5	6	8	**8**

KEY PROFIT AND LOSS ITEMS

For the year ended 31 December	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Revenue	164,654,215	169,561,797	164,068,528	166,044,963	**171,461,059**
Operating profit	49,226,431	50,553,590	57,905,305	62,874,375	**70,732,035**
Profit attributable to equity shareholders	28,682,784	34,643,211	37,020,638	40,766,835	**44,900,303**

KEY STATEMENT OF FINANCIAL POSITION ITEMS

At 31 December	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Fixed assets#	60,318,557	69,595,165	70,979,688	101,274,985	**115,240,672**
Long-term investments	21,391,579	20,244,063	16,209,776	20,777,469	**26,682,870**
Other non-current assets	11,135,183	17,305,640	9,186,508	21,561,825	**16,384,964**
Net current assets	199,433,619	289,944,207	275,308,831	295,247,940	**317,895,989**
Non-current liabilities	(135,089,995)	(181,509,548)	(144,261,444)	(165,318,789)	**(182,598,253)**
Net assets	157,188,943	215,579,527	227,423,359	273,543,430	**293,606,242**

* *Representing the distribution in specie of China Overseas Property Holdings Limited Shares*

** *Before capitalisation and excluding interest on amounts due to non-controlling shareholders*

Representing investment properties and property, plant and equipment

2018 Business Milestones

21 March

The Group launched the brand's 2018 promotional theme — "To Build a Glorious Life".

"To Build a Glorious Life"

24 March

Earth Hour

More than 20 of the Group's offices in 11 cities across the country switched off the lights for an hour to promote environmental protection. This is the fifth consecutive year that the Group has participated in the Earth Hour event, reflecting the Group's longstanding commitment to supporting environmental causes.

2 April

The Group was invited to participate in the 14^{th} International Conference on Green and Energy-Efficient Building & New Technologies and Products Expo. It also hosted a forum "The Future Has Come: Health, Wisdom and Industrialisation in Real Estate", including talks and shared insights on prefabricated housing development, future-oriented product lines, and the introduction of smart technologies to Xiong An, among other topics.

"The Future Has Come: Health, Wisdom and Industrialisation in Real Estate"

2018 Business Milestones (continued)

19 April

The Group with its highest credit rating in China's real estate industry (Fitch A-/Stable, Moody's Baa1/Stable, Standard & Poor's BBB+/Stable), outstanding financial performance, stellar credit score, and forecast of continuous stable growth in the coming years, accurately grasped the critical window of the capital market to successfully issue two senior notes with a maturity period of five-year and ten-year each at a total amount of USD1.5 billion.

29 April

Xiong An Citizens Service Centre

The Xiong An Citizens Service Centre opened to the public smoothly. The Group led the investment in the centre's construction and is responsible for its operation and management. As a window showcasing the Xiong An New District to the whole nation and the world, the project is the first to present the functional positioning and development concept of Xiong An New District. Since opening, the centre has received more than 10 state leaders, 44,000 delegate visits and 250,000 tourist visits.

24 May

The reform of the "Professional Manager" system within China State Construction Engineering Corporation ("CSCEC") kick-started in the Group. The senior executives of the Group all signed a professional manager agreement pledging their commitment to effectively enhance the career solidarity of middle and senior management.

29 June

The Group launched its share option scheme, granting share options comprising 107,320,000 shares to 404 middle to senior executives.

2018 Business Milestones (continued)

17 July

Unipark Shopping Mall, Shanghai

The Group Series of Companies' 13th shopping mall — Unipark Shopping Mall in Shanghai — officially opened. In addition, in December, the Group Series of Companies' 42nd office building — Taiyuan China Overseas International Center — also came into operation. The completion of commercial property series and the expansion of core property holdings fully reflect the Group's continued strategy to increase investment in commercial properties.

15 August

The Group signed a framework agreement with Shanxi Lan county on a targeted poverty alleviation initiative and selected millet, a local agricultural product, as a tool to help alleviate poverty. The initiative supported farmers to launch the "Xiurong Millet" product brand to expand their sales channels and encourage local industrial development.

"Xiurong Millet"

September

The employees of the Group spared no effort to fight against the effects of super typhoon "Mangkhut". Staff from Shenzhen, Guangzhou, Zhuhai, Hong Kong and Macau helped clear roads, fallen trees and garbage in affected urban districts.

Fight against the effects of super typhoon "Mangkhut"

2018 Business Milestones (continued)

11 October

Hongqi Village, Shanghai

The Group successfully acquired four land parcels for the "Hongqi Village" project in Shanghai's Putuo District at the reserve price of RMB9.40 billion. As the largest urban village redevelopment project in the downtown area of Shanghai, the project will become the commercial core of Putuo Zhenru Sub-district and a new urban landmark for Shanghai.

22 October

The Group successfully issued a six-year corporate bond with a face value of RMB3.5 billion and a coupon rate of 4.00%, with the offering oversubscribed 2.13 times. It was a record-low interest rate at the time of issuance for domestic corporate bonds issued by a real estate enterprise since 2017, and the largest issue of single-category corporate bonds by an AAA-grade real estate enterprise since 2018.

26 October

The CSCEC Open Day of 40 Years of Testimonial – CSCEC Journey of Miracles, the 36th stop of the major themed promotional tour, was held at the Beixinan shanty town redevelopment project in Beijing, and the "China Overseas Urban Renewal White Paper" was officially released at the event.

40 Years of Testimonial – CSCEC Journey of Miracles

2018 Business Milestones (continued)

1 November

"Great Tides Surge Along the Pearl River – 40th Anniversary of Reform and Opening Up in Guangdong"

The exhibition "Great Tides Surge Along the Pearl River – 40th Anniversary of Reform and Opening Up in Guangdong" opened at the Group's Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall.

27 December

The Group successfully acquired Kai Tak Area 4B Site 2 in Kowloon, Hong Kong for HK$8.03 billion.

29 December

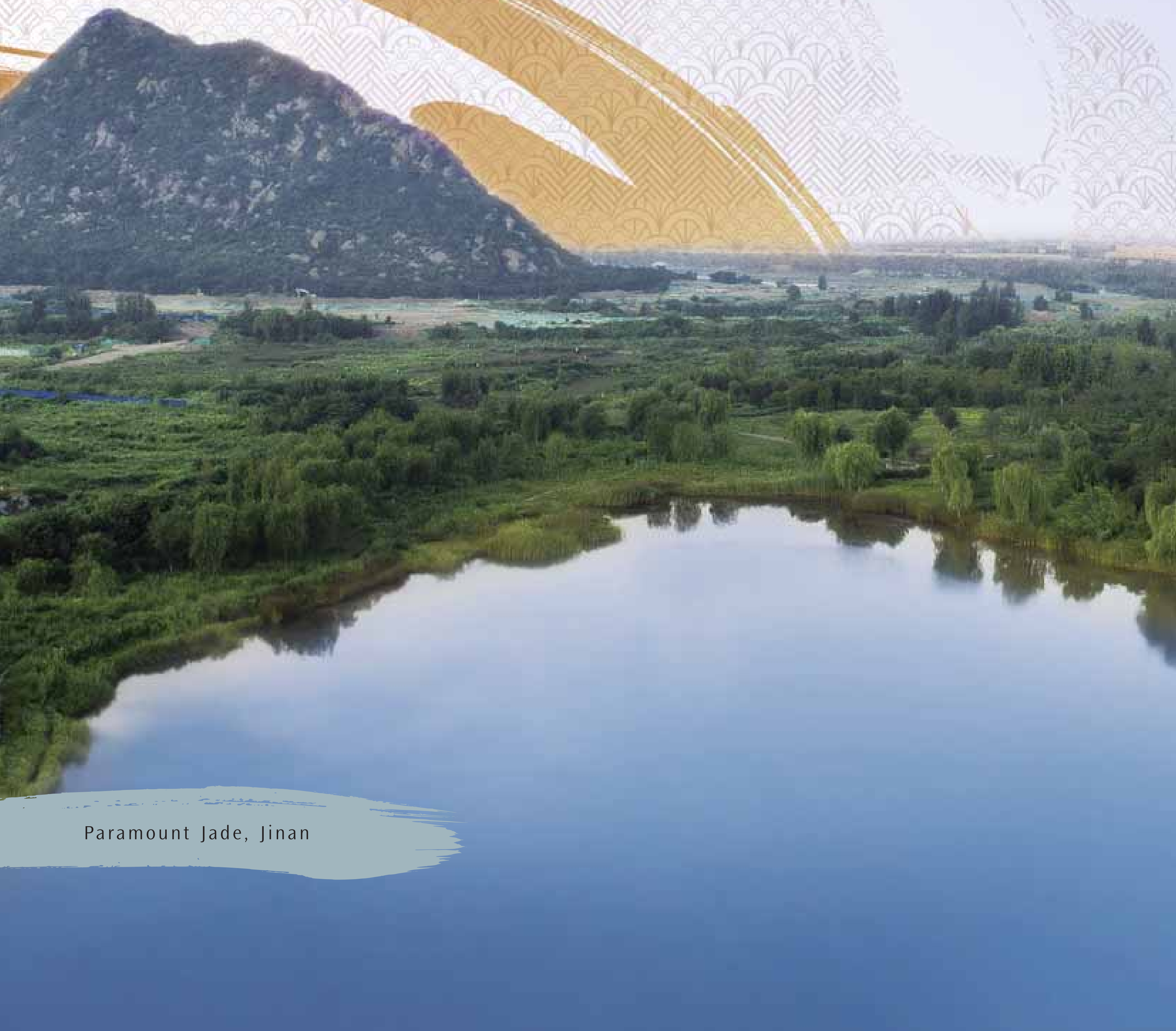
The Group's first China Overseas senior living project – China Overseas Jinnian Senior Apartments – opened in Tianjin, marking the official launch of the Group's quality senior apartment developments of the senior living business.

31 December

La Cite, Beijing

Four projects developed by the Group – Paramount Jade in Jinan, Glory City in Chengdu, Asian Games City in Guangzhou (a jointly developed project) and La Cite in Beijing – ranked among the top 10 in the industry with annual sales over HK$10 billion.

Chairman's Statement



Paramount Jade, Jinan

Chairman's Statement

I have pleasure to report to the shareholders the audited revenue of the Group for the year ended 31 December 2018 was HK$171.46 billion, an increase of 3.3%; operating profit was HK$70.73 billion, an increase of 12.5%; profit attributable to equity shareholders of the Company increased by 10.1% to HK$44.90 billion; the net profit margin was 26.2%; the core net profit, after deducting HK$7.81 billion in net gains after tax arising from changes in fair value of investment properties, amounted to HK$37.09 billion, representing an increase of 8.3% as compared to last year; basic earnings per share was HK$4.10; shareholders' funds increased to HK$283.48 billion; net assets per share was HK$25.87; and average return on shareholders' funds was 16.4%. The Board proposed a final dividend of HK50 cents per share.

Yan Jianguo
Chairman and Chief Executive Officer

Chairman's Statement (continued)

2019 marks the 40th anniversary of the Group, representing an era of maturity and confidence on the path ahead. At the milestone of 40 years of development, the Group firmly believes the measure of a good business is whether it qualifies as "a Company of Four Excellences", offering "good products and good services", and demonstrating "good effectiveness and good citizenship".

The Group is one of the few Chinese real estate companies to have weathered numerous economic and real estate cycles and still stand strong as a market leader in mainland China as well as in Hong Kong and Macau. The Group will maintain its strategies and stay committed to its vision "to be an exceptional global property development corporation", firmly adhering to its operating philosophy of "good products, good services, good effectiveness and good citizenship", maintaining its positioning in major cities, mainstream areas and mainstream products, and stride through market cycles to better and faster development.

In 2018, the Group set out the objective to achieve better and faster development. Contracted property sales of the Group Series of Companies were HK$301.24 billion, representing an increase of 29.8% over the previous year, while the average selling price reached HK$18,905/sq m, and the product premium remained at an industry-leading level. The Group acquired 63 new parcels of land, adding a total gross floor area ("GFA") of 17.64 million sq m (attributable interest of 12.72 million sq m) at a total land premium of HK$144.32 billion (attributable interest of HK$108.44 billion). Among the new land parcels, 13 were acquired at reserve price, accounting for 21% of the annual total attributable land premium. Attracting much market attention among the new additions to the land reserve were Hongqi Village in Shanghai, which is the largest urban village redevelopment project in the city's downtown area, and Kai Tak Area 4B Site 2 in Kowloon, Hong Kong. At the end of December, the land reserve of the Group Series of Companies reached 91.44 million sq m.

During the year, the Group maintained the highest credit ratings among the industry (from Fitch, Moody's and Standard & Poor's at A-/Stable, Baa1/Stable and BBB+/Stable respectively). The weighted average borrowing costs were 4.30%, among the lowest level in the industry. The Group has ample cash and is financially healthy, with bank balances and cash amounted to HK$100.56 billion at 31 December 2018, and net gearing of 33.7% which was among the lowest level in the industry.

The world is facing its biggest challenge in a century with significantly raised levels of uncertainty in international political and economic structures. In 2018, frequent rate hikes for the US dollar, together with the US-initiated trade war, intensified uncertainty about global economic growth. The Chinese economy steadily progressed and evolved, but not without concerns. With the ratcheting up of regulations and controls, transactions slowed in the mainland real estate market. The Hong Kong property market also turned down after 28 consecutive months of rises. Facing uncertain external economic conditions, the Group adhered to a strategic development that seeks steady progress amid stability, striving to create better value and returns for shareholders. In 2018, the Group successfully achieved various business objectives.

Chairman's Statement (continued)

This year, 2019, marks the 40th anniversary of the Group, representing an era of maturity and confidence on the path ahead. Having braved the challenges of numerous economic and real estate cycles, the Group strongly believes that China's economy is still in a period of important strategic opportunity. The Group has confidence in the development of China's economy and its own development strategy. In 2018, China's GDP exceeded RMB90 trillion for the first time, with its year-on-year increase of 6.6% the highest growth rate among the world's top five economies. Commercial housing covering 1.7 billion sq m was sold in mainland China, amounting to approximately RMB15 trillion in total sales. Both the area sold and sales value of commercial housing were historic highs, indicating that the domestic real estate market still holds huge demand.

China Overseas Jinnian Senior Apartments, Jinan

The Group is further striving to achieve its strategic goal of "to be an exceptional global property development corporation", expanding and creating better livings around its principle business of property development and operation, continually strengthening its three major businesses — "Residential Development", "Urban Services" and "Design Services" — and investing 90% of resources into the principal business of residential development and 10% into commercial and innovation. In 2018, the Group's total operating revenue from commercial properties was HK$4.06 billion, an increase of 38.1%, among which the leasing performance of investment properties was satisfactory with total rental income increased by 44.1% to HK$3.53 billion. Income generated from hotel and other commercial properties was HK$530 million, a year-on-year increase of 8.2%. Looking ahead, it is expected that the total operating revenue from commercial properties will exceed HK$10 billion in 5 years. At the end of 2018, the total area of commercial properties held by the Group Series of Companies which are in operation was 4.09 million sq m, which comprised a total of 42 office buildings, 13 shopping malls and 12 star-rated hotels. The Group is the biggest developer of office buildings under single ownership and the leased area exceeded 500,000 sq m for two consecutive years, attracting more than 120 Fortune 500 Global enterprises taking up leases on the China Overseas office buildings. The Group's co-working office brand "OfficeZip" established presence in six mainland China cities including Beijing, Shanghai, Chengdu, with co-working office area amounting to approximately 30,000 sq m. The Group's continuous exploration of new growth opportunities drives its stable long-term development, and new business focused on real estate development saw 13 projects come on stream in 2018, covering the Group's three businesses — education, senior living and logistics, in 12 business types, ranging from schools, kindergartens, COLI Academy, outdoor camps and senior apartments, to logistic industrial parks and more, with a cumulative operating area exceeding 350,000 sq m.


Tianjin Logistics Park


COLI Kindergarten

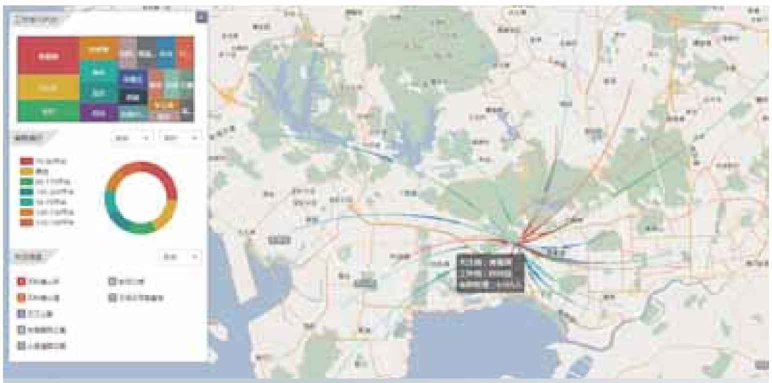
Chairman's Statement (continued)

At the milestone of 40 years of development, the Group firmly believes the measure of a good business is whether it qualifies as "a Company of Four Excellences", offering "good products and good services", and demonstrating "good effectiveness and good citizenship".

The Group believes that the foundation of an effective business is to provide customers with "good products and good services". In 2018, the Group paid unprecedented attention to researching customer expectations in the new era. On the two axes of purchasing power and family structure, the Group established a customer segmentation model alongside a product system that serves five categories and ten types of customer. By corresponding to the needs and concerns of different customers, the system combines standardisation and innovative design with cost flexibility, builds a solid quality control and operational evaluation system, strengthens precision in construction, embraces new technologies, new materials, new processes, and continuously improves product quality. To ensure it kept listening to customers' voices through multiple channels, the Group continued with its home owner visit programme called "Knock-Knock". The Group implemented independent third party "Mystery Customer Visits" to ensure the timely review of product quality and customer service issues. The Group also funded the upgrading of old community facilities beyond its maintenance obligations and held a variety of customer networking activities, greatly boosting customer satisfaction to an industry-leading level.

In 2018, the Group established a digital information platform that embraces the whole process of real estate development, offering IT capabilities such as city maps, panoramic project management planning, inventory management systems, three-tier customer inventory, cost management, customer relationship management (CRM), and remote video monitoring of project works, to achieve accurate quantitative management of various factors and measures including construction, progress, costs, price, sell-through rate and customer communications, enabling "good products and good services" with information technology to ensure "good effectiveness".

Home owner visit programme "Knock-Knock"



COLI's proprietary customer segment analysis platform

Chairman's Statement (continued)

"Sons of the Sea", "Sea's Recruits" and "Stars of the Sea"

"Sons of the Sea"

"Stars of the Sea"

Embracing "good citizenship" is an on-going effort of the Group which continuously fulfils its corporate social responsibility. The Group ranks employee satisfaction as an important goal. The Group has established a staff care plan, continuously optimised working environments, enhanced employee remuneration and benefits, and improved its "Sons of the Sea", "Sea's Recruits" and "Stars of the Sea" talent training systems, which have earned the Group acclaim as the best employer in the industry. The Group actively promotes low-carbon practices to protect the environment, prioritising the procurement of green building materials and energy-saving devices and facilities, accelerating the implementation of smart construction sites and maximising the proportion of prefabricated residential developments, which contributed to green building certification for 42 new projects during the year, comprising an area of 8.57 million sq m. Cumulatively the Group has had 156 projects awarded green building certification (including 134 residential projects and 22 commercial projects), representing an area of 27.55 million sq m recognised as green buildings. This year, the Group secured first-place honours in the annual "China's Listed Real Estate Enterprise Green Credit Rankings". The Group donated further funds to build 14 Hope Schools. Leveraging the resourcefulness of its millions of clients and customers, the Group initiated a targeted poverty alleviation initiative "Sea of Hope" in three poverty-affected mainland counties: Shanxi's Lan County, Gansu's Kang County and Chongqing's Wuxi County. Through this initiative, the Group helps Lan County to launch a unique agricultural brand "Xiurong Millet", which helps farmers to develop online sales and enables poor farmers to rise above the poverty line. The Group is proud that its charitable efforts were recognised with the "2018 Exemplary Philanthropic Enterprise" award.

Chairman's Statement (continued)

The Group is one of the few Chinese real estate companies to have weathered numerous economic and real estate cycles and still stand strong as a market leader in mainland China as well as in Hong Kong and Macau. As the mainland property market moves from a period of rapid growth to one of steady development and Hong Kong's real estate market readjusts after recent price highs, the Group is of the view that these conditions will foster more sustainable and healthier growth of the market. The Group is confident that the development of China's real estate market will remain robust in the medium to long term, and has a clear understanding of likely short-term adjustments. Aiming to stabilise land prices, housing prices and market expectations, the state policy will strive to balance the government's regulatory grip and steady growth, paying more attention to sustainability while fostering smooth operation in the market. It will also reinforce city-specific growth policies, accelerate differentiation in market structure, and command higher expectations of enterprises' strategies, professional capabilities, financial strength, and human resource quality. The Group will maintain its strategies and stay committed to its vision "to be an exceptional global property development corporation", firmly adhering to its operating philosophy of "good products, good services, good effectiveness and good citizenship", maintaining its positioning in major cities, mainstream areas and mainstream products, and stride through market cycles to better and faster development.

In 2018, the Group launched its share option scheme, granting share options comprising 107,320,000 shares to 404 middle to senior executives. In the next few years, the Group will launch the share option scheme in phases. During the year, the Group is named by the Central Government as a pilot organisation for the "Professional Manager" system. Our senior executives all signed a professional manager agreement pledging their commitment to effectively enhance the career solidarity of middle and senior management. The Group pledges to comprehensively achieve sustained value-added satisfaction for the Company, its shareholders, business associates, staff and the community. The State-owned Assets Supervision and Administration Commission of the State Council recently named CSCEC, the controlling shareholder of the Group, as one of ten central state-owned enterprises that are previsioned to be "world-class exemplary enterprises" — acclaim that will bring the Group more and greater development opportunities.

Last but not least, I would like to take this opportunity to express my heartfelt appreciation to my fellow directors and the entire staff for their dedication, professionalism and determination to succeed and would like to express my gratitude to the shareholders and business associates for their support and trust.

China Overseas Land & Investment Limited
Yan Jianguo
Chairman and Chief Executive Officer

20 March 2019

Management Discussion and Analysis

La Cite, Fuzhou

Management Discussion and Analysis (continued)

LAND RESERVE

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

Annual Summary

- The Group acquired 63 land parcels during the year, adding a total GFA of 17.64 million sq m (attributable interest of 12.72 million sq m) at total land premium of HK$144.32 billion (attributable interest of HK$108.44 billion)

- COGO, an associate of the Group, acquired 25 land parcels in 14 cities in mainland China, adding 5.02 million sq m to its land reserve

- At the end of 2018, the total land reserve of the Group's Series of Companies reached 91.44 million sq m. Among which, the Group's Series of Companies (excluding COGO) have a total land reserve of 70.10 million sq m (attributable interest of 56.97 million sq m); COGO has a total land reserve of 21.34 million sq m (attributable interest of 19.98 million sq m)

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

In 2018, the Group closely monitored developments in the real estate market, evaluated in-depth emerging characteristics of the domestic and international economic environment, and prudently studied the new thinking behind real estate market controls. With the ratcheting up of regulations and controls, transactions slowed in the mainland real estate market, the Group has always adhered to its strategy to invest in "major cities, mainstream areas and mainstream products". In terms of location, the Group prefers to expand activity in its already developed cities. Investment focus mostly targets prime areas in first-tier and second-tier cities with an insistence on selecting best-of-the-best projects. In respect of choosing optimal investment opportunities, the Group differentiates and targets land investment plans: for cities with tight regulations and strict purchase requirements, the investment risks are carefully controlled; for regions and cities with growing populations buoyed by industrial growth, investment is moderately increased. In respect of modes of investment, the Group insists on a land acquisition strategy that is diversified, multi-channel and multi-method, through strong internal and external cooperation, with broadened investment channels, and effectively managed land acquisition costs. In terms of the application of investment tools, the Group actively develops and applies information systems such as city-map assisted decision-making systems and investment management systems, and further improves accuracy in investment decisions with advanced information technology.

During the year, the Group acquired 63 land parcels in 28 cities in mainland China and Hong Kong, adding a total GFA of 17.64 million sq m to the land reserve (attributable interest of 12.72 million sq m). The total land premium was HK$144.32 billion (attributable interest of HK$108.44 billion).


One Center, Dongguan

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

The table below shows the details of land parcels added in 2018:

City	Project Name	Interest Attributable To The Group	Land Area *('000 sq m)*	Total GFA *('000 sq m)*
Foshan	Shunde District Project	100%	149	386
Hangzhou	Binjiang District Project	100%	23	89
Beijing	Changping District Project	100%	175	490
Guangzhou	Nansha District Project	100%	79	234
Shenzhen	Pingshan District Project	100%	19	124
Beijing	Daxing District Project #1	100%	74	206
Kunming	Wuhua District Project	60%	103	515
Urumqi	Shuimogou District Project #1	100%	34	145
Urumqi	Shuimogou District Project #2	100%	35	143
Shenyang	Hunnan District Project	100%	180	450
Guangzhou	Panyu District Project	14%	76	366
Chongqing	Banan District Project	51%	89	299
Wuhan	Jiang'an District Project #1	51%	22	130
Xi'an	Changan District Project	100%	131	569
Jinan	Gaoxin District Project #1	34%	200	450
Changsha	Yuhua District Project	100%	71	343
Qingdao	Gaoxin District Project #1	100%	86	232
Beijing	Daxing District Project #2	33%	31	128
Kunming	Guandu District Project	100%	117	584
Urumqi	Gaoxin District Project	100%	17	76
Chongqing	Nanchuan District Project	100%	121	292
Urumqi	Huizhan Pian District Project	100%	58	240
Fuzhou	Gaoxin District Project	100%	30	112
Changchun	Beihu District Project	100%	172	572
Tianjin	Hongqiao District Project	25%	52	242
Jinan	Gaoxin District Project #2	33%	215	474
Nanchang	Xinjian District Project	100%	64	106
Hangzhou	Xihu District Project	100%	39	134

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

The table below shows the details of land parcels added in 2018: (continued)

City	Project Name	Interest Attributable To The Group	Land Area *('000 sq m)*	Total GFA *('000 sq m)*
Foshan	Shunde District Project	100%	17	55
Nanchang	Ganjiang New District Project	100%	111	282
Suzhou	Gaoxin District Project	51%	54	159
Ningbo	Yinzhou District Project	100%	37	107
Nanjing	Jiangbei New District Project	100%	149	457
Zhengzhou	Zhengdong New District Project	100%	52	139
Yantai	Fushan District Project	100%	120	415
Beijing	Daxing District Project #3	100%	40	145
Harbin	Songbei District Project	100%	63	129
Jinan	Licheng District Project	100%	70	307
Harbin	Daoli District Project #1	100%	48	158
Beijing	Chaoyang District Project	100%	75	143
Changchun	Beihu Technology Development District Project	100%	200	530
Ezhou	Gedian Development District Project	50%	124	427
Shanghai	Putuo District Project #1	70%	15	55
Shanghai	Putuo District Project #2	70%	24	117
Shanghai	Putuo District Project #3	70%	23	85
Shanghai	Putuo District Project #4	70%	9	97
Harbin	Daoli District Project #2	100%	47	154
Wuhan	Jiang'an District Project #2	99%	18	147
Beijing	Shijingshan District Project	80%	61	246
Qingdao	Shibei District Project	100%	43	181
Guangzhou	Zengcheng District Project #1	25%	133	596
Guangzhou	Zengcheng District Project #2	20%	85	380

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

The table below shows the details of land parcels added in 2018: (continued)

City	Project Name	Interest Attributable To The Group	Land Area *('000 sq m)*	Total GFA *('000 sq m)*
Fuzhou	Jinan District Project	50%	35	137
Dalian	Gaoxin Yuan District Project	100%	67	180
Wuhan	Caidian District Project	100%	91	361
Yantai	Zhifu District Project	100%	30	53
Qingdao	Gaoxin District Project #2	18%	318	1,160
Qingdao	Gaoxin District Project #3	18%	293	1,217
Chengdu	Tianfu New District Project	100%	64	182
Changchun	Jingyue District Project	100%	133	311
Suzhou	Gongye Yuan District Project	100%	9	154
Shanghai	Pudong New District Project	49%	103	189
Hong Kong	Kai Tak Project	100%	9	55
Total			**5,232**	**17,641**

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

During the year, the Group's associate COGO acquired 25 land parcels in 14 cities in mainland China, which has increased the land reserve by 5.02 million sq m, and it is the first time for COGO to expand its presence in Liuzhou, Baotou, and Jining. So far, the Group's Series of Companies have penetrated into the real estate market in a total of 64 domestic and overseas cities and formed an improved network across cities.

In 2018, the Group has proactively developed the internal coordination with CSCEC and strived to expend external cooperation. Through internal synergy with CSCEC, the Group obtained five parcels of land in Wujiaba, Guandu District, Kunming, with a total GFA of approximately 584,000 sq m. The project is located in the core business district of Kunming, providing great potential for future development. Through cooperation with external industrial resources, the Group acquired Lot No. P7 and P10 at Phase 5 of Hankou Binjiang International Business District, Jiang'an District, Wuhan, with a total GFA of approximately 277,000 sq m. Leveraging on the strength of our industrial resources, the Group acquired a land parcel in Si'an Street, Suzhou Industrial Park, with a total GFA of approximately 154,000 sq m.

On 11 October 2018, the Group successfully acquired four land parcels of the "Hongqi Village" project in Shanghai Putuo District, with a total GFA of approximately 354,000 sq m and at the reserve price of RMB9.40 billion (of which 70% is attributable to the Group). The project is the largest urban village redevelopment in the downtown area of Shanghai. The project is located in the Putuo Zhenru district, one of the four sub-centers of Shanghai located in the central core area. As part of the mainstream lot in the downtown area with complete ancillary facilities, the district has ample room and potential of development. It is planned to be Shanghai's new landmark with residential, office and shopping malls. The project marks another important milestone in the Group's 26 years history in Shanghai.

On 31 October 2018, the Group and Beijing Shougang Real Estate Development Co., Ltd. (a real estate development platform of Shougang Group Co., Ltd.) jointly acquired the land parcels on the east side of Gucheng South Street, Shijingshan District, Beijing, with a total GFA of approximately 246,000 sq m and at the reserve price of RMB4.83 billion (of which 80% is attributable to the Group). The plot is the first batch of primary land development lot located in the southeastern part of autonomous land owned by Shougang Group for sale. Later on, there will still be large-scale land for sale, and the surrounding development potential is huge.

Through the first eight months of 2018, the Hong Kong land market remained hot with the HKSAR Government selling a total of nine residential plots. Hong Kong-funded enterprises actively contested auctions, pushing land prices to new highs. In the fourth quarter, the market gradually cooled as interest rate hikes and situations around the area took effect. The Group participated prudently in bidding in the Hong Kong and Macau markets and secured the tender for a luxury residential plot in Kai Tak in Hong Kong at the end of December 2018. Acquired for HK$8.03 billion, the site covers an area of approximately 9,000 sq m with a total GFA of approximately 55,000 sq m. This former runway area at New Kowloon Inland Lot No. 6575 at Kai Tak Area 4B Site 2, Kowloon, enjoys convenient transportation at an excellent location. It is planned to build a luxury residential project. The Group currently has a high quality land bank of 279,000 sq m in Hong Kong and Macau that is expected to yield optimal returns for the Group.

Hongqi Village, Putuo District, Shanghai

Wujiaba, Guandu District, Kunming

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

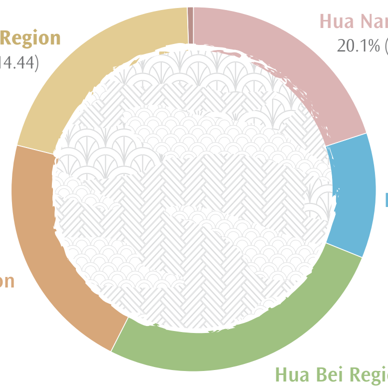
At the end of 2018, the Group Series of Companies (excluding COGO) had a total land reserve of 70.10 million sq m (attributable interest of 56.97 million sq m) in 38 mainland China cities, Hong Kong and Macau. The land reserves in mainland China are relatively balanced between Hua Bei region, Northern region, Western region, Hua Nan region and Hua Dong region, with the proportion of 26.3%, 21.4%, 20.6%, 20.1% and 11.2% respectively. The total land reserve of COGO was 21.34 million sq m (attributable interest of 19.98 million sq m). At the end of 2018, the total land reserve of the Group Series of Companies reached 91.44 million sq m.

The global economy is at risk of a period of weakening growth, with the Sino-US trade war one among several unfavourable macro factors. The Group will adhere to its established better and faster development strategy, maintain considered investments, and make sound investment plans to safeguard quality growth. Looking ahead, the Group will continue to foster internal coordination with CSCEC in terms of land investment and to expand cooperation with external strategic partners to strengthen synergistic advantages. At the same time, the Group will reinforce the building and management of the digital information platform such as through the use of city maps and investment information systems, and will continuously improve professionalism and precision through the standardisation of processes and operations, to guarantee the effective implementation of investment strategies.

In the first two months of 2019, the Group acquired three land parcels in Beijing, Shanghai and Taiyuan adding a total GFA of approximately 615,000 sq m.

BREAKDOWN OF LAND RESERVE BY REGION*

million sq m



Hua Nan Region:	Shenzhen, Haikou, Wanning, Sanya, Foshan, Guangzhou, Changsha, Xiamen, Fuzhou, Zhuhai, Dongguan, Zhongshan, Zhaoqing, Zhangzhou, Jiangmen
Hua Dong Region:	Suzhou, Nanjing, Ningbo, Hangzhou, Nanchang, Shanghai, Wuxi, Zhenjiang
Hua Bei Region:	Beijing, Tianjin, Jinan, Taiyuan, Wuhan, Zhengzhou
Northern Region:	Changchun, Qingdao, Dalian, Shenyang, Yantai, Harbin
Western Region:	Chengdu, Xi'an, Chongqing, Kunming, Urumqi

* *Representing the Group Series of Companies (excluding COGO)*

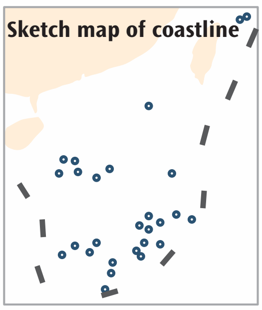
Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

LAND RESERVE DISTRIBUTION*

Total Land Reserve

	City	GFA ('000 sq m)
Hua Nan Region	Shenzhen (including Dongguan)	533
	Hainan (including Haikou, Wanning and Sanya)	1,388
	Guangzhou	5,716
	Foshan (including Zhaoqing)	2,348
	Changsha	1,204
	Xiamen (including Zhangzhou)	682
	Fuzhou	1,074
	Zhuhai (including Jiangmen, Zhongshan)	1,165
	Sub-total	14,110
Hua Dong Region	Suzhou (including Wuxi)	2,412
	Nanjing (including Zhenjiang)	1,950
	Ningbo	896
	Hangzhou	378
	Nanchang	912
	Shanghai	1,317
	Sub-total	7,865
Hua Bei Region	Beijing	4,829
	Tianjin	3,693
	Jinan	7,115
	Wuhan (including Ezhou)	1,344
	Zhengzhou	1,200
	Taiyuan	207
	Sub-total	18,388
Northern Region	Changchun	3,428
	Qingdao	5,219
	Dalian	1,853
	Shenyang	3,020
	Yantai	833
	Harbin	668
	Sub-total	15,021
Western Region	Chengdu	4,134
	Xi'an	2,875
	Chongqing	4,358
	Kunming	1,347
	Urumqi	1,723
	Sub-total	14,437
Hong Kong & Macau	Hong Kong	279
	Sub-total	279
	Total	70,100



* *Representing the Group Series of Companies (excluding COGO)*

Management Discussion and Analysis (continued)

LAND RESERVE *(continued)*

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT

Unipark, Zhuhai

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

Annual Summary

- The contracted property sales of the Group's Series of Companies for the year amounted to HK$301.24 billion, and the corresponding sales area was 15.93 million sq m
- The sales proceeds collections of the Group's Series of Companies for the year reached HK$272.55 billion, and the pre-sales deposits were HK$167.81 billion at the end of the year
- The Group's revenue from property development was HK$167.04 billion for the year, with segment profits increased by 21.5% to HK$62.52 billion. The gross profit margin of property development projects remained at industry-leading level
- The area of the completed projects of the Group's Series of Companies (excluding COGO) for the year was 13.64 million sq m, and the area of the newly commenced projects was 23.75 million sq m
- Joint ventures and associates contributed HK$3.42 billion to the profits of the Group

Management Discussion and Analysis (continued)

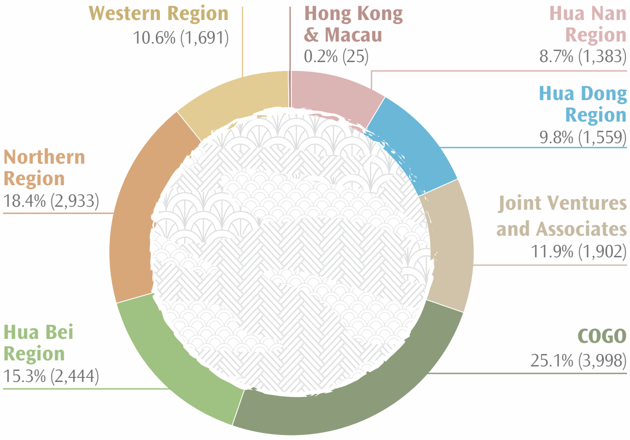
PROPERTY DEVELOPMENT *(continued)*

In 2018, the Group focused on the improvement of the quality of development projects, directed resources to residential developments, accelerated turnover and scale development and achieved better and faster development. During the year, the contracted property sales of the Group's Series of Companies reached a new record high of HK$301.24 billion, representing an increase of 29.8% over last year, and the corresponding sales area was 15.93 million sq m, representing a year-on-year increase of 10.2%. Average selling prices reached HK$18,905/sq m, and the product premium remained at an industry-leading level. The sales proceeds collections for the year reached HK$272.55 billion, and the pre-sales deposits were HK$167.81 billion at the end of the year.

The Group's revenue from property development was HK$167.04 billion for the year, with segment profits increased by 21.5% to HK$62.52 billion. The gross profit margin of property development projects remained at industry-leading level.

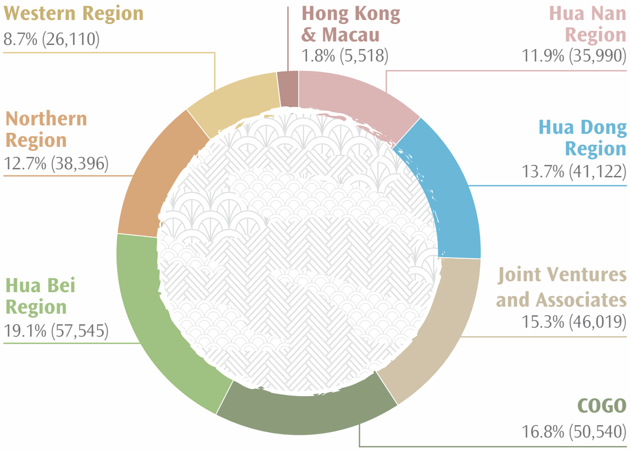
2018 CONTRACTED SALES AREA BY REGION*

'000 sq m



2018 CONTRACTED SALES AMOUNT BY REGION*

HK$ million



* *Representing the Group Series of Companies*

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

In 2018, the Group's Series of Companies (excluding COGO) completed 71 projects with a total area of 13.64 million sq m in total in 30 cities of mainland China.

The table below shows the area of projects completed by region in 2018:

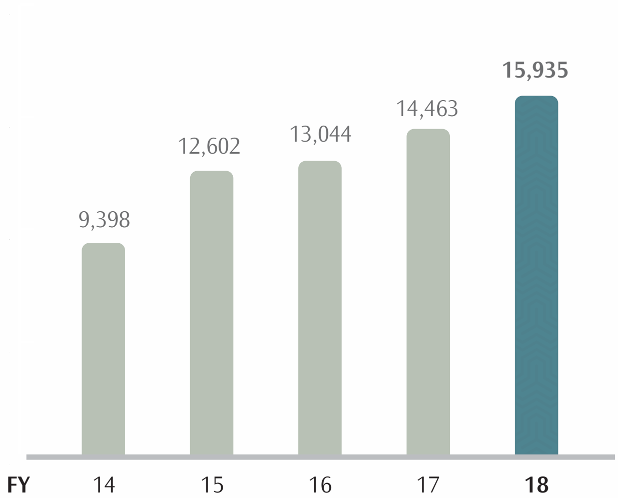
City	Total Area *('000 sq m)*
Hua Nan Region	
Fuzhou	378
Hainan	480
Shenzhen	250
Dongguan	567
Guangzhou	890
Foshan	607
Changsha	933
Zhuhai	266
Sub-total	4,371
Hua Dong Region	
Wuxi	715
Hangzhou	144
Suzhou	227
Nanjing	717
Nanchang	127
Shanghai	100
Ningbo	202
Sub-total	2,232
Hua Bei Region	
Beijing	45
Tianjin	64
Jinan	967
Wuhan	224
Taiyuan	259
Sub-total	1,559
Northern Region	
Changchun	729
Dalian	141
Qingdao	343
Shenyang	743
Yantai	580
Harbin	779
Sub-total	3,315
Western Region	
Urumqi	465
Chengdu	1,094
Xi'an	297
Chongqing	304
Sub-total	2,160
Total	**13,637**

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

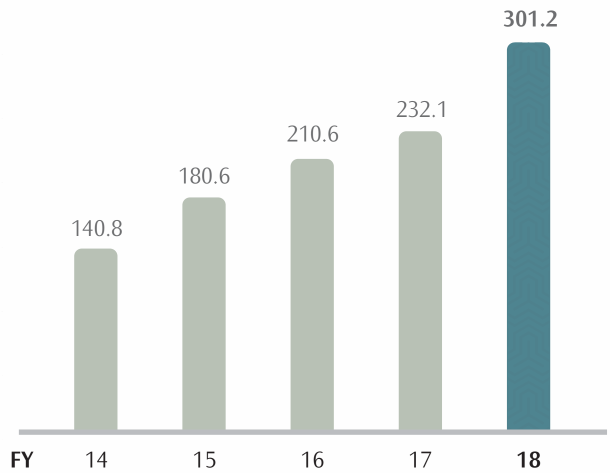
CONTRACTED SALES AREA*

'000 sq m



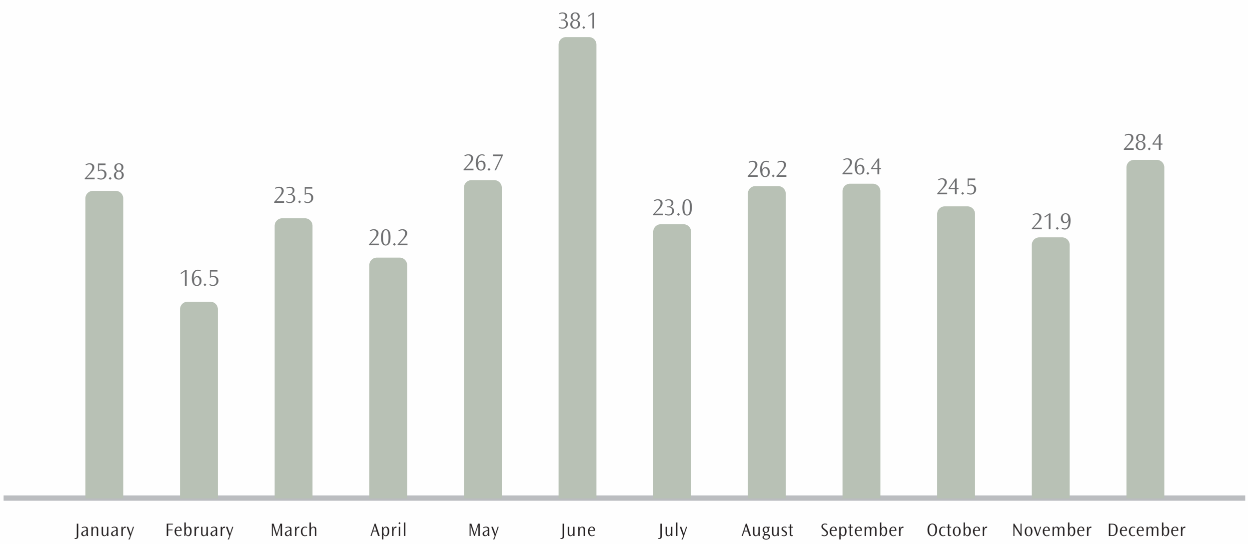
CONTRACTED SALES AMOUNT*

HK$ billion



2018 CONTRACTED SALES AMOUNT BY MONTH*

HK$ billion



* *Representing the Group Series of Companies*

Management Discussion and Analysis (continued)

Qinhuangsi Project, Tianfu New District, Chengdu

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

The area of newly commenced projects of the Group's Series of Companies (excluding COGO) for the year amounted to 23.75 million sq m, an increase of 21.5% compared with the previous year, which helps to enlarge the scale of saleable and profitable projects in 2019.

During the year, the profit contribution from joint ventures and associates amounted to HK$3.42 billion. The Group's major associate COGO recorded contracted property sales of HK$50.54 billion, revenue of HK$25.57 billion, and a net profit of HK$2.50 billion. The Group earned a net profit of HK$930 million from COGO for the year. In early 2018, COGO raised a total HK$4.61 billion through a rights issue, further strengthening its financial capability. The Group has subscribed for 445,265,017 COGO's shares under the rights issue at a total consideration of HK$1.82 billion. The Group's shareholding in COGO is 38.32% after the completion of the rights issue.

The Group continues to be customer oriented, adhering to the principle of "enjoyable space, smart IoT, green technology and healthy living", and with dedicated craftsmanship in building new residential areas that meet the needs of future customers in the new era. The Group's customer research team conducts research on target customers through multiple dimensions including city, region, area, purchasing power and family structure, and has established a customer segmentation model that identifies five categories and ten types of customers, corresponding to various needs and concerns. The Group requires that product design applies standardisation, taking into account differences between regions and project qualities, and adopting new technologies, new materials and new processes to continuously enhance product quality. During the year, the Group's various projects introduced intelligent, green concepts and advanced technologies, which were widely recognised by customers and proudly earned the Group a number of awards, including "The Paragon, Shenzhen — Outstanding Residential Community Gold Award" in the "2018 Tien-yow Jeme Civil Engineering Prize", "China Overseas One Blossom Cove, Guangzhou — International Property Award" in the Best Mixed-use Property Awards. During the year, 42 new residential projects were certified as green buildings.

The Group will continue to enhance its unique competitive advantages in the industry through continuous innovation to create good products, good services and good effectiveness.

COLI's proprietary regional analysis platform

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

The property development projects of the Group is primarily located in the first-tier and second-tier cities in China. Below is the introduction of projects that are worth noticing in terms of the scale of current or future sales in their respective regions, among which the annual contracted property sales of Beijing La Cite in Northern region and Guangzhou Asian Games City in Hua Nan region both exceeded HK$10 billion, the details of which are as follows:

Project Introduction

Northern Region

Changchun Flourishing City (100%-owned)

Location:	Beihu Science and Technology Development Zone, Changchun City
Project site area:	413,554 sq m
Project total GFA:	1,118,143 sq m

Changchun Flourishing City is adjacent to Changchun Northeast Asia Gold Bond Cultural Park which is recognised as one of the National 4A Level Scenic Spots in China. The project is located in the Beihu Economic Development Zone in Changchun City which is a national new district approved by the State Council. It has rapid development, high quality infrastructure, convenient transportation that connects trunk roads and main streets running through the area, and is close to the Rail Transit Line 1 and Metro Line 5 station. The project is developed in five phases: the first and second phases went on sale in 2018, with 1,639 units sold, which are expected to be completed in 2019 and 2020 respectively; and the third to fifth phases are under development.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Northern Region *(continued)*

Yantai Glorious City (100%-owned)

Location:	Fushan District, Yantai
Project site area:	119,919 sq m
Project total GFA:	393,345 sq m

Yantai Glorious City is located 800 meters south of the intersection of South Beijing Road and Fuxin Road in Fushan District of Yantai City, where it is considered as premium location at the intersection of the development zone and Fushan District, allowing residents to enjoy the best facilities and the future development of both districts. The project is at close proximity to the main roads of Beijing Road and Shenyang – Haikou Expressway transportation, accessible from all directions. The project commenced construction in January 2019, with 2,720 residential units and 290 commercial units, and is expected to be completed by the end of 2020.

PROPERTY DEVELOPMENT *(continued)*

Project Introduction *(continued)*

Hua Dong Region

Suzhou Upper East (100%-owned)

Location:	Suzhou Industrial Park
Project site area:	84,922 sq m
Project total GFA:	210,502 sq m

Upper East is located in Suzhou Park East Lake, next to Suzhou Olympic Sports Center. The project is adjacent to Metro Line 5 (under construction), Line 6 (under construction) and near Zhongxin Avenue East, Xingtang Street and other trunk roads, thus enjoys convenient transportation. There are well-developed commercial facilities such as Olympic Sports Square and AEON MALL. The units of the project were awarded the "Asia's Best Layout Design Award". At present, the project is under construction, and is expected to be completed in December 2019, providing 818 residential units. On 29 November 2018, the first launch day, 218 residential units were sold out immediately.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

Project Introduction *(continued)*

Hua Dong Region *(continued)*

Wuxi La Cite (100%-owned)

Location:	Xinwu District, Wuxi
Project site area:	245,185 sq m
Project total GFA:	845,310 sq m

Wuxi La Cite is located in the core area of Wuxi Xinwu District, with convenient transportation access. It is adjacent to Zhuangqiao Station of Metro Line 2, with well-established commercial and education facilities. Adjacent to its west is the New Town Central Park, which covers an area of about 225 acres. The Phoenix Hospital in the New District is about 3km away. Ample living and leisure facilities are available within the community. The project was developed in three phases. The first phase is nearing completion and was launched for sale in November 2017 and approximately 93% have been sold so far. Phase II commenced construction in early 2018, while Phase III is under planning, both of which are expected to be completed in 2021.

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Hua Bei Region

Beijing La Cite (100%-owned)

Location:	Shijingshan District, Beijing
Project site area:	289,527 sq m
Project total GFA:	979,917 sq m

Beijing La Cite is located in the west extension of Chang'an Avenue, Shijingshan District, Beijing. It is strategically located at the intersection of five Metro lines, with major transportation hubs (Jin'an Bridge and Apple Park) at the north end. Adjacent to Yongding River Forest Park and Xishan Badachu Park, it enjoys scenic advantages. The project is situated in the core area for supporting services for the Beijing Winter Olympics, which is the focus of future development of Shijingshan District, Beijing. The district will become a comprehensive development demonstration zone of the West Beijing area that integrated transportation transfer, financial facilities and high-end business services, low-carbon garden-living facilities, and regional shopping, leisure and entertainment functions. The three phases of the project are expected to be completed in 2019, 2020 and 2021, respectively. In 2018, the contracted property sales of the first and second phases exceeded HK$10 billion, which ranks first in Beijing.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Hua Bei Region *(continued)*

Essence of Noble (100%-owned)

Location:	Panggezhuang Town, Daxing District, Beijing
Project site area:	74,464 sq m
Project total GFA:	227,000 sq m

Essence of Noble is located in the Longxi Villa Community 1,500 meters west of the Panggezhuang Bridge in Daxing District, Beijing. Its living area belongs to the core area of the Guomen Business District of Beijing New International Airport. Beijing plans to build a new aviation city hub in Daxing District, and a new international high-end industrial city focusing on aviation industry, business services, headquarter economy, cultural innovation, leisure and entertainment. The project has launched 249 units in September and October 2018, all of which are sold out. The entire project is expected to be completed in November 2019.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Hua Bei Region *(continued)*

Glorious International (50%-owned)

Location:	Gedian Development Zone, Ezhou, Hubei Province
Project site area:	123,756 sq m
Project total GFA:	429,155 sq m

Glorious International is jointly developed by the Group and China Construction Third Engineering Bureau Co., Ltd., each holding 50% equity interest. The site is located in Gedian Development Zone of Ezhou City. The district has a collection of high-speed rail, city rail, metro, trams and other high-speed facilities for convenient transportation. The commercial facilities of the project have been improving with a large shopping mall, two special themed marketplaces and several amenities situated in the surrounding area. The project is divided into two regions, north and south. The north region consists of 8 high-rise buildings, 4 of them are expected to be launched for sale in April 2019. The south region consists of 7 high-rise buildings and 6 low-rise buildings and are now in foundation laying phase.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Hua Nan Region

Changsha Jade Palace (100%-owned)

Location:	Yuhua District, Changsha
Project site area:	70,674 sq m
Project total GFA:	350,974 sq m

Changsha Jade Palace is located at the core of the new city center in south Changsha, adjacent to the transportation hub of the South Railway Station. It enjoys a transportation network of three north-south and three east-west routes, and is close to the planned Metro Line 7 and the operating Changsha-Zhuzhou-Xiangtan Intercity Railway. Adjacent to the Hunan Forest Botanical Garden, the Xiangfu Cultural Park, and the "Three Pavilions and One Center", the project is abundant in cultural resources. The project commenced construction in August 2018 and is expected to be launched for sale at the end of July 2019 and completed in December 2020.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Hua Nan Region *(continued)*

Guangzhou Asian Games City (20%-owned)

Location:	Shilou Town, Panyu District, Guangzhou
Project site area:	1,580,186 sq m
Project total GFA:	5,850,031 sq m

Guangzhou Asian Games City is located in Shilou Town, Panyu District, Guangzhou, adjacent to Haibang Station of Metro Line 4 with access to high-speed rail, high-ways and ports that connects the Shenzhen-Hong Kong-Macau Bay Area. The project is mainly divided into two parts: the pre-Asian Games completed region, and the post-Asian Game ongoing region. The former was put into use during the 2010 Asian Games, while the post-Asia Games ongoing region is divided into eight districts with a total saleable area of approximately 3.16 million sq m, including 3.02 million sq m residential area and 140,000 sq m commercial area. In terms of the districts' construction process, three had been completed, three were undergoing construction phase, and two had not yet been commenced by the end of 2018. The residential units were sold in in March 2018, met with enthusiastic responses. The annual contracted property sales amounted to RMB10.4 billion.

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Western Region

Chengdu Qinhuangsi Project (100%-owned)

Location:	Tianfu New District, Chengdu
Project site area:	199,596 sq m
Project total GFA:	1,826,043 sq m

The Chengdu Qinhuangsi Project is located at the core location in the Tianfu New District, which is at national level, and is the southern centre of Chengdu "Dual-Core Strategy". The project is located at the future transport hub of the city, thus having a traffic advantage. Nearby, there are three vertical and three horizontal trunk roads, four metro lines (locating right above Tianfu commercial area station of Metro Line 6) and two international airports. There are some primary and secondary schools and well-equipped medical institutions in the vicinity of the project. It is also close to Tianfu Central Park and Luxi River Wetland. The planning of surrounding lands focuses on commercial offices and green lands, which possess the core commercial resources and ecological resources of the city. The development of the project is divided into five phases, among which Phase I and Phase II have been undergoing early stages of work. It is expected that commencement of construction of these two phases will take place in April 2019, launch for sale at the end of September 2019 and the completion in December 2020 and June 2021 respectively.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*
Project Introduction *(continued)*

Western Region *(continued)*

Upward Mansion (60%-owned)

Location:	Wuhua District, Kunming
Project Site Area:	102,720 sq m
Project GFA:	522,520 sq m

Upward Mansion is located in the foothills of Changchongshan (Mount Changchong) beside Xiaomaiqi near Hongyun Sub-district Office, Wuhua District, Kunming. Built amidst secluded forests and set against the under-planning Changchongshan Ecological Park, the project lies on the central axis of Longquan Road, the major trunk road of northern Kunming. Situated amidst the hustle and bustle of northern Kunming, it is surrounded by Aegean Plaza, Harmony Century, Beichen Fortune Plaza and Kunming Square, the four major commercial zones in the region. One who lives with the vibrancy of Yunzhu also enjoys its tranquility. The entire project will be developed into 21 buildings with communal facilities such as kindergartens and primary schools, which will offer one-stop quality education. The pre-sale of the project was launched in October 2018, and is scheduled to be completed in December 2019.

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

Major projects under development

Project	Group's interest %	Intended Use	City	Site Area (sq m)	GFA (sq m)	Progress
Coli City, Yuhong District	100%	Residential	Shenyang	1,253,855	3,281,440	Under construction
Gate of Peace, Heping District	100%	Residential/Commercial	Shenyang	494,586	2,255,258	Under construction
International Community, Gaoxin District	100%	Residential/Commercial	Yantai	451,575	1,376,322	Under construction
Glorious City, Fushan District	100%	Residential	Yantai	119,919	393,345	Under planning
Flourishing City, Economic and Technological Development Area	100%	Residential/Commercial	Changchun	413,554	1,118,143	Under construction
Master Mansion, Economic and Technological Development Area	100%	Residential/Commercial	Changchun	172,207	1,086,402	Under construction
Glory Mansion, Ganjingzi District	100%	Residential/Commercial	Dalian	153,025	531,847	Under construction
La Cite, Xinwu District	100%	Residential/Commercial	Wuxi	245,185	845,310	Under construction
Nanjin Jiangbei New District Project	100%	Residential/Commercial	Nanjing	149,465	454,685	Under construction
Hongqi Village, Putuo District	70%	Residential/Commercial	Shanghai	69,998	354,094	Under planning
The Grandeur, Jiangbei New District	65%	Residential	Nanjing	96,410	395,466	Under construction
Upper East, Industrial Park	100%	Residential	Suzhou	84,922	210,502	Under construction
Splendid Urban Life, Economic and Technological Development Area	100%	Residential	Nanchang	111,477	290,077	Under construction
Paramount Jade, Licheng District	100%	Residential/Commercial	Jinan	2,564,109	7,735,678	Under construction
City in Park, Jinnan District	100%	Residential	Tianjin	2,476,886	2,963,725	Under construction
Cop City Plaza, Hedong District	51%	Residential/Commercial	Tianjin	135,540	1,206,299	Under construction
La Cite, Shijingshan District	100%	Residential/Commercial	Beijing	289,527	979,917	Under construction
Glorious International, Ezhou Gedian Development Zone	50%	Residential/Commercial	Wuhan	123,756	429,155	Under construction

Management Discussion and Analysis (continued)

PROPERTY DEVELOPMENT *(continued)*

Major projects under development *(continued)*

Project	Group's interest %	Intended Use	City	Site Area (sq m)	GFA (sq m)	Progress
Essence of Noble, Daxing District	100%	Residential/Commercial	Beijing	74,464	227,000	Under construction
La Cite, Shangjie Town, Minhou County	100%	Residential/Commercial	Fuzhou	174,309	735,594	Under construction
Cozy Land, Nansha District	100%	Residential	Guangzhou	78,951	247,937	Under construction
The Piedmont, Shunde District	100%	Residential/Commercial	Foshan	149,305	386,100	Under construction
Jade Palace, Yuhua District	100%	Residential	Changsha	70,674	350,974	Under construction
Coast Mansion, Shenzhen Peninsula	100%	Residential/Commercial	Hainan	144,750	250,039	Under construction
Guangzhou Asian Games City, Panyu District	20%	Residential/Commercial	Guangzhou	1,580,186	5,850,031	Under construction
Glory City, Tianfu New District	100%	Residential/Commercial	Chengdu	379,951	1,904,231	Under construction
Qinhuangsi Project, Tianfu New District	100%	Residential/Commercial	Chengdu	199,596	1,826,043	Under planning
The Great City, Qujiang New District	50%	Residential	Xi'an	443,713	1,357,494	Under construction
THE U WORLD, Guandu District	100%	Residential/Commercial	Kunming	116,803	756,331	Under construction
Upward Mansion, Wuhua District	60%	Residential	Kunming	102,720	522,520	Under construction
Royal Mansion, Shuangliu District	100%	Residential/Commercial	Chengdu	103,857	439,499	Under construction

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES

Beijing OfficeZip

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

Annual Summary

- The Group's total operating revenue from commercial properties for the year was HK$4.06 billion, an increase of 38.1%, among which the leasing performance of investment properties, including office buildings, co-working offices, shopping malls, was satisfactory with total rental income for the year increased by 44.1% to HK$3.53 billion. Income generated from hotel and other commercial properties was HK$530 million, a year-on-year increase of 8.2%

- At the end of 2018, the Group Series of Companies had commercial properties of over 4.09 million sq m, and commercial properties under development and to be developed was 5.47 million sq m

Management Discussion and Analysis (continued)

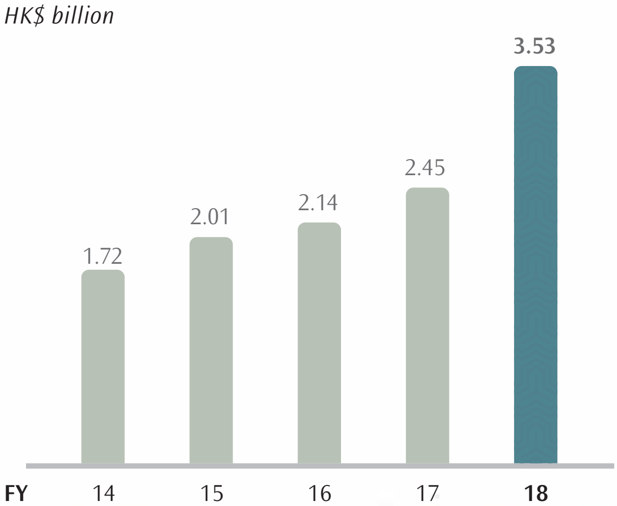
COMMERCIAL PROPERTIES *(continued)*

The Group has always attached great importance to the development of commercial property. As an important strategic component of its "three major businesses", the commercial properties business is the fulcrum of the Group's focus on urban services, value enhancement and brand reputation. In 2018, the Group pursued its strategic upgrading of "urban services", actively fulfilled the mission of an urban services operator, participating in the development of the urban services industry, which includes Grade A office buildings, co-working offices, shopping malls, star-rated hotels, long-term leased apartments, and public cultural facilities, working with customers and partners to create a better urban livings.

In 2018, the total operating revenue from the commercial properties held by the Group reached HK$4.06 billion, an increase of 38.1%, among which the leasing performance of Grade A office buildings, co-working offices and shopping malls was satisfactory with a total rental income increased by 44.1% to HK$3.53 billion; the income generated from hotel and other commercial properties was HK$530 million, a year-on-year increase of 8.2%. At the end of 2018, the total area of completed commercial properties held by the Group Series of Companies was 4.09 million sq m, which comprised a total of 42 office buildings, being the biggest developer of office buildings under single ownership, holding 13 shopping malls, 12 star-rated hotels. The Group ranked high in the industry in terms of scale of overall operation and management of commercial properties and won the "TOP 2 China Commercial Real Estate Developers Brand Value", which was jointly awarded by China Real Estate Association and China Real Estate Appraisal.

RENTAL INCOME

HK$ billion



OFFICE BUILDINGS

The Group continues to maintain its leading position as the biggest developer of office buildings under single ownership in China. The office building brand has its layout in 15 core cities in China, which the urban strategy is the same as that of the Group. Over 90% of the office buildings are located at municipalities or provincial cities. With the advantage of scale and layout, the Group not only accumulates rich commercial resources, but also constructs high quality enterprise ecological community, attracting more than 2,500 enterprises taking up leases on the China Overseas office buildings, including more than 120 Fortune Global 500 enterprises and more than 20 unicorn enterprises.

During the year, the Group's office building projects with more than one year of operation recorded an average occupancy rate of over 90%, with the occupancy rate of projects in Beijing, Shanghai and Nanjing constantly maintained above 98%. Driven by the brand and services, the Group's rental performance of office buildings has been exceptional, with new rent 12% higher than the average in the regional markets, while the renewal rent recorded an average increase of 13%.

The Group and BOMA China jointly published "Guide to the Classification of International Office Buildings". Blocks C and D of China Overseas International Center in Chengdu becomes the first project of the Group to receive BOMA COE certification in the middle-west region, and was also awarded the gold certification of Leadership in Energy and Environmental Design ("LEED") issued by US Green Building Council. So far, the Group has 19 office buildings with LEED certifications. Such awards from the authorities of the industry fully reflected the recognition of the industry for the quality and operational capabilities of China Overseas commercial properties.

China Overseas International Center, Shanghai

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

CO-WORKING OFFICES

OfficeZip is a co-working office brand under the Group. It is marked as an all-round service co-working office, an urban commercial business lounge and the operator of OZIPer urban elite community. It focuses on providing high-quality and flexible office products and services for large enterprises, unicorn companies and entrepreneur elites. During the year, OfficeZip underwent a rapid growth and established presence in six mainland China cities including Beijing, Shanghai, Chengdu, with office sharing area amounting to approximately 30,000 sq m. The size is five times larger than that in the beginning of the co-working office business. The rent has a significant rent premium over the traditional office buildings. It was awarded the "2018 Influential Co-working Office Brand".

Shanghai OfficeZip

OfficeZip at China Overseas Fortune Centre, Finance Street, Beijing, as the brand flag, has a project single zone of 20,000 sq m. The project precisely targeted financial and industry chain enterprises, building a vertical co-working office complex. Chengdu OfficeZip project was fully rented immediately after its launch, attracting a number of leading brand enterprise teams taking up the leases.

SHOPPING MALLS

During the year, with the operation of shopping malls including Beijing Uni ELITE, Shanghai Uni ELITE and Chengdu UniFANs, the Group's "UNI Shopping Mall" has achieved four different types and positioning of brands that commence business in core cities of the country, namely "Unipark", "Uni ELITE", "UniFANs" and "Mid Town". The operation scene continues to enrich while the business map continues to expand, and project layouts have been located at 11 core cities including Beijing, Shanghai, Foshan, Zhuhai and Nanjing, 85% of which are municipalities and provincial cities.

The "UNI Shopping Mall" has made transcending progress in its operating efficiency with annual project revenue increased by more than 60% year-on-year, the total sales and customer traffic increased by more than 40% year-on-year, and the occupancy rate of well-established projects remained at over 95%. Through comprehensive merchant control and improved early warning mechanism, the vacancy period of shops is shortened by more than 20% as compared to previous years.

Unipark Shopping Mall, Foshan

By virtue of the excellent performance of each project, the operating philosophy and capabilities of "UNI Shopping Mall" were widely acknowledged within the industry. Jinan Unipark and Changsha Unipark were respectively awarded the "Pilot Project of China Community Shopping Mall Focus Study" and the "China Shopping Mall 2018 – Urban Development Growth Engine Award" by Mall China. Nanjing Unipark and Foshan Unipark won the "Cross-Industry Value-Upgrade Award" and "Authentic Content New Value Award" respectively in the China Commercial Real Estate New Value Award.

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

HOTELS

At the end of 2018, the Group's Series of Companies have 12 hotels in operation in Shenzhen, Beijing, Chongqing, Zhuhai, Macau, Hainan and other core cities and tourist destinations. Under the synergy of business ecosystem, the hotel business, having seized the opportunities brought by consumption upgrade and improved iterative operations, recorded a year-on-year increase of 7.3% in annual revenue and an increase of 13% in operating gross profit.

Sheraton Hotel, Hainan

LONG-TERM LEASED APARTMENT

The Group has established a clear product system for long-term leased apartment, formulated four product categories including service-based business apartment, social-based elite apartment, interactive youth apartment and traditional long-term leased apartment, and initiated China Overseas "Unilive Residence" and "Unilive Apartment" and a whole series of brands for youth. Currently, around 10 long-term leased apartment projects in core cities such as Beijing, Shanghai, Shenzhen, and Chengdu are under construction and are expected to be put into operation in phases within one to three years ahead. The Group speeds up the launch of the whole series of products of China Overseas' long-term leased apartment.

Western Centre, long-leased apartment, Shanghai

Suzhou Industrial Zone (Sports Park) long-leased apartment

"Unilive Residence" & "Unilive Apartment"

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

OTHERS

In terms of cultural business, the Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall, which was jointly developed by the Group and Shenzhen Government, has been home to many special exhibitions and themed events of great significance or international reputation such as "Great Tides Surge Along the Pearl River – 40th Anniversary of Reform and Opening up in Guangdong" since its trial operation. The number of visitors to this exhibition hall were over 750,000, which contributes to the reputation of Shenzhen as an international city with cultural relevance. Xiong An Citizens Service Centre, which the Group participated in the construction and operation, has officially commenced its operation in the national new district Xiong An. It is a milestone practice of the Group as an "urban operator" featuring multiple factors of innovation, such as modern urban development and integration of industrial and financial capital.

Looking forward, the Group will continue to speed up the development of commercial properties and further enhance the operational capability and economic benefits to create a strong commercial brand. At the end of 2018, commercial properties held by the Group's Series of Companies with a total area of 5.47 million sq m were under development and to be developed. The Group expects the total annual operating revenue from commercial properties to exceed HK$5 billion by 2020, and reach HK$10 billion by 2023.

Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall

Xiong An Citizens Service Centre

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

MAJOR COMPLETED COMMERCIAL PROPERTIES

	Name of property and location	Type	Group's interest *%*	City	Year of expiry of lease term	Total area *sq m*
(a)	China Overseas Plaza Jianguomenwai Avenue, Chaoyang District, Beijing	Office Building	100	Beijing	2053	145,332
(b)	China Overseas Property Plaza West Bin He Road, Yong Ding Men, Dongcheng District, Beijing	Office Building	100	Beijing	2043	87,699
(c)	China Overseas International Center of Aonan Community Uni ELITE No. 4 parcel at Intersection of Anding Road and Beitucheng East Road, Beijing	Office Building and Shopping Mall	100	Beijing	2060 2050	127,824
(d)	China Overseas Building Lao Gu Cheng Village JB parcel, Shijingshan District, Beijing	Office Building	100	Beijing	2053	50,162
(e)	China Overseas Property Building 96 Taipingqiao Avenue, Xicheng District, Beijing	Office Building	100	Beijing	2051	24,668
(f)	Beijing (H Parcel) Lao Gu Cheng Village H Parcel, Shijingshan District, Beijing	Office Building	100	Beijing	2054	28,946
(g)	China Overseas International Center Phase One to Three No. 199 Jincheng Road, Gaoxin District, Chengdu	Office Building	100	Chengdu	2047	387,632
(h)	China Overseas International Center Block FG Jiaozi Road, Gaoxin District, Chengdu	Office Building	100	Chengdu	2051	143,692
(i)	Block J, West Lot of China Overseas International Center Jiaozi Road, Gaoxin District, Chengdu	Office Building	100	Chengdu	2052	90,283
(j)	China Overseas Building No. 76 Yanji Road, Shibei District, Qingdao	Office Building	100	Qingdao	2047	61,319
(k)	China Overseas Plaza Jiu Qu Zhuang Road, Shizhong District, Jinan	Office Building	100	Jinan	2049	103,588
(l)	China Overseas Building No. 3, Furong South Road, Yanta District, Xi'an	Office Building	100	Xi'an	2080	34,932

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

MAJOR COMPLETED COMMERCIAL PROPERTIES *(continued)*

	Name of property and location	Type	Group's interest %	City	Year of expiry of lease term	Total area sq m
(m)	Block AB, China Overseas International Center No. 905A, Nandi West Road, Heping District, Shengyang	Office Building	100	Shenyang	2050	114,590
(n)	China Overseas Building No. 257 Hanjiang Ave, Hanyang District, Wuhan	Office Building	100	Wuhan	2053	61,279
(o)	China Fortune Tower 1568–1588, Century Avenue, Pudong New District, Shanghai	Office Building	51	Shanghai	2054	95,622
(p)	China Overseas International Center Uni ELITE Intersection of Jianguo East Road and Huangpi South Road, Huangpu District, Shanghai	Office Building and Shopping Mall	100	Shanghai	2056 2046	158,930
(q)	China Overseas Building Intersection of Dongting Road and Heiniucheng Road, Hexi District, Tianjin	Office Building	100	Tianjin	2055	95,477
(r)	China Overseas Plaza No. 57 Wujiayao Street, Hexi District, Tianjin	Office Building	100	Tianjin	2053	95,300
(s)	China Overseas Wealth Center Dongting Road, Hexi District, Tianjin	Office Building	100	Tianjin	2055	74,608
(t)	China Overseas International Center The south junction of Yingze Bridge West and Jinci Road, Wanbailin District, Taiyuan	Office Building	100	Taiyuan	2053	269,885
(u)	One Finsbury Circus One Finsbury Circus, London, U.K.	Office Building	100	London	Freehold	19,260
(v)	61 Aldwych 61 Aldwych, London, U.K.	Office Building	100	London	Freehold	16,482
(w)	Carmelite House 50 Victoria Embankment, Carmelite House, London, U.K.	Office Building	100	London	Freehold	12,447
(x)	One South Place (The Helicon) 1 South Place, London, U.K.	Office Building	100	London	Freehold	21,150

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

MAJOR COMPLETED COMMERCIAL PROPERTIES *(continued)*

	Name of property and location	Type	Group's interest %	City	Year of expiry of lease term	Total area sq m
(y)	China Overseas Plaza Mid-Town Bai Shi Road, Xiangzhou District, Zhuhai	Office Building and Shopping Mall	100	Zhuhai	2060 2050	204,335
(z)	Unipark Shopping Mall Jiu Qu Zhuang Road, Shizhong District, Jinan	Shopping Mall	100	Jinan	2049	76,288
(aa)	Unipark Shopping Mall No. 39 Qingliangmen Street, Gulou District, Nanjing	Shopping Mall	100	Nanjing	2048	131,875
(ab)	Unipark Shopping Mall No. 18 Guinanzhong Road, Nanhai District, Foshan	Shopping Mall	100	Foshan	2052	130,895
(ac)	Unipark Shopping Mall No. 111 Zhongyi Two Road, Tianxin District, Changsha	Shopping Mall	100	Changsha	2046	203,758
(ad)	China Overseas Coli Hotel, Shenzhen No. 168 Dayun Road, Longgang District, Shenzhen	Hotel	100	Shenzhen	2057	85,659
(ae)	Sheraton Hotel, Hainan Shenzhou Peninsula Tourism Resort, Dongao Town, Wanning, Hainan	Hotel	80	Wanning	2057	56,192
(af)	Fupeng Hotel, Hainan Shenzhou Peninsula Tourism Resort, Dongao Town, Wanning, Hainan	Hotel	80	Wanning	2057	46,345
(ag)	Pullman Hotel, China Overseas, Zhuhai No. 2029 Jiuzhou Avenue West, Xiangzhou District, Zhuhai	Hotel	100	Zhuhai	2060	23,423
(ah)	Guotai Hotel, Beijing No. 12 Yonganxili, Jianguomen Outer Street, Chaoyang District, Beijing	Hotel	100	Beijing	2053	11,286
(ai)	Ascott Macau R. Cidade de Braga, Nape, Macau	Hotel	100	Macau	2049	15,886

Management Discussion and Analysis (continued)

COMMERCIAL PROPERTIES *(continued)*

MAJOR COMMERCIAL PROPERTIES UNDER CONSTRUCTION

	Name of property and location	Type	Group's interest *%*	City	Estimated completion year	Year of expiry of lease term	Total area *sq m*
(a)	Project JA Lao Gu Cheng Village JA parcel, Shijingshan District, Beijing	Office Building	100	Beijing	2019	2055	69,770
(b)	China Overseas International Building Bin He West Road, Tanggu District, Tianjin	Office Building	100	Tianjin	2019	2049	170,487
(c)	China Overseas Building Qian Shan San Tai Shi Road, Xiangzhou District, Zhuhai	Office Building, Shopping Mall and Hotel	100	Zhuhai	2020	2058	335,158
(d)	Meijiatang Project Meijiatang, Rehe South Road, Gulou District, Nanjing	Office Building	100	Nanjing	2020	2057	156,080
(e)	Beixinan Project A Transformation District, Penghu District, Beixinan, Shijingshan District, Beijing	Office Building	100	Beijing	2020	2067	230,446
(f)	Wansong Garden Project Intersection of Qingnian Road and Xuesong Road, Wuhan	Office Building and Shopping Mall	100	Wuhan	2020	2057	81,399
(g)	Binjiang Commercial Project Ningfeng Village, Jiangdong District, Ningbo	Shopping Mall	100	Ningbo	2021	2056	136,491
(h)	Qinhuangsi Project Commercial District, Qinhuangsi, Tianfu New District, Chengdu	Office Building, Apartment and Hotel	100	Chengdu	To be confirmed	2058	677,688

Management Discussion and Analysis (continued)

OTHER PROPERTY RELATED OPERATIONS

Prince Bay, Shenzhen

Management Discussion and Analysis (continued)

OTHER PROPERTY RELATED OPERATIONS *(continued)*

PLANNING AND CONSTRUCTION DESIGN

Hua Yi is a company of the Group engaging in the provision of design services. It has attained Grade A Architectural Design Qualification and Grade A Urban and Rural Planning Qualification, and is one of the earliest enterprises in the industry passing the ISO9001 Quality Control System Accreditation and also the first batch of enterprises recognised as "National High-Tech Enterprises".

Hua Yi has a talent pool of around 700 professional designers and top-notch experts in the industry. During the year, the chief architect of Hua Yi, who was the only representative from Shenzhen's construction industry, was crowned the inaugural winner of the "Master of Surveying and Designing in Guangdong Province". With top-class talents and professional and excellent design services, Hua Yi has established a good reputation in the industry. During the year, Hua Yi was awarded the design rights of a number of prominent projects, such as the "Bao'an People's Hospital (with 3,300 beds)", a mega hospital in Shenzhen, the "Shenzhen International Convention and Exhibition City", the first "dual chiefs" project, "the Panda Tower", the super high rise building in Chengdu. Moreover, Hua Yi played an active part in the development of Xiong An New District, a national initiative crucial for the millennium to come.

With a range of high-quality and high-standard projects in planning and architectural design, Hua Yi is widely recognised by the industry. During the year, Hua Yi was regarded as one of the enterprises in Guangdong Province with innovation and advanced construction technology as well as the 40th anniversary of China's reform and opening up "The Most Influential Enterprise in the Surveying and Designing Industry in Guangdong Province". Looking ahead, Hua Yi is heading toward its vision and goal of "establishing a top-notch designing company".

Honored as "The Most Influential Enterprise"

Management Discussion and Analysis (continued)

OTHER PROPERTY RELATED OPERATIONS *(continued)*

EDUCATION BUSINESS

Centering on the key idea that "education could make everything possible", the Group builds up its brand as "Education Unlimited" and has established four types of education business, namely the K12 Schools, the COLI Kindergarten, the COLI Academy Community Education and the COLI Outdoor Campsite. During the year, the Group operated 12 education projects spanning core cities such as Guangzhou, Shenzhen, Foshan, Dongguan, Jinan, Qingdao, Dalian and Hainan. The Group runs two schools, offering primary school, secondary school and high school curriculum with over 8,000 students. Developing the education business in tandem with the Group's principal business of property development can create a synergy for improvement, which in turn helps enhance the operation quality of both the property communities and urban areas.

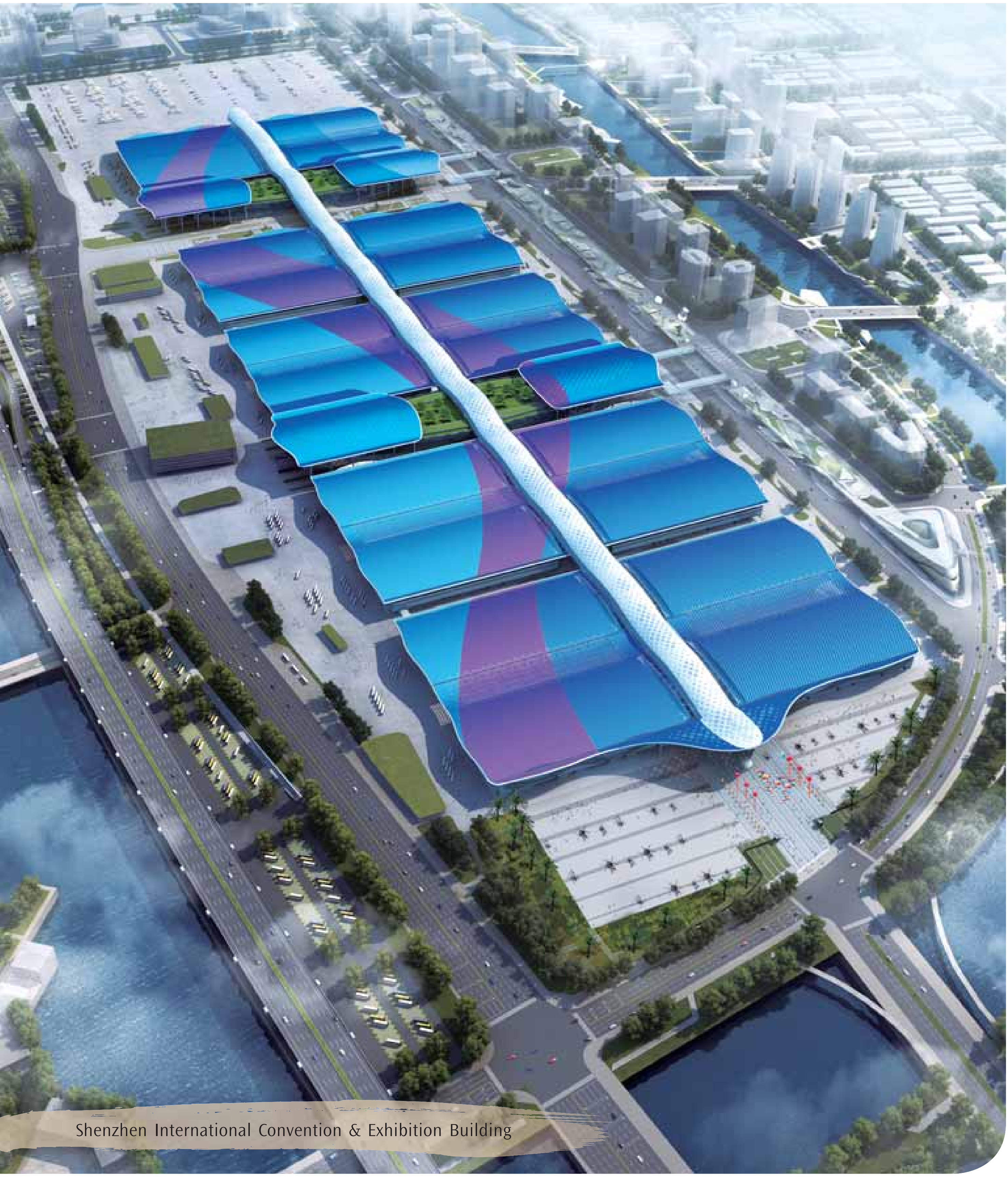
SENIOR LIVING BUSINESS

The Group actively expands its senior living business, striving to develop four major senior living product types, including community with continuum of care for the elderly, premium urban apartments for elders, care and attention homes with day respite services and service platform for elders. Centering on the core concept of "Celebrating the Golden Years Together", the Group has launched its senior living brand name "China Overseas Jinnian" during the year. The first China Overseas Jinnian Healthy Life Centre in Li Xian Hu District, Chongqing commenced operation in May 2018. The China Overseas Jinnian Senior Apartments in Tianjin and Qingdao and China Overseas Jinnian Life Centre in Shenzhen were opened by the end of the year. The Group have also commenced the construction of the community project on senior living in Wuxi and Fangting District, Jinan. The Group's development of senior living business provides new choices of quality life for the elderly in the community, which shows the Group's commitment and social responsibility for the well-being of our elderly populace.

Matihu Nankai Experimental School, Dongguan

China Overseas Jinnian Senior Apartments, Qingdao

Management Discussion and Analysis (continued)



Shenzhen International Convention & Exhibition Building

Management Discussion and Analysis (continued)

GROUP FINANCE

FINANCIAL AND TREASURY MANAGEMENT PRINCIPLES

The Group has consistently adhered to the principle of prudent financial and treasury management. The Group implements centralised fund management for unified scheduling in order to reduce idle funds. The Group firmly believes that sales proceeds are the most solid and reliable source of working capital, and therefore puts constant efforts in expediting cash collection and enhancing its ability to protect its assets. Appropriate decisions on fund raising are pursued after taking into account of the financial positions of the Group, cash collection and business investment requirements of future operations as well as future changes in the capital market, subject to a healthy and reasonable level of borrowing and adequate financial resources.

While placing emphasis on the availability of adequate funds and diversified financing channels, the Group also strives to control the gearing level and borrowing costs. At 31 December 2018, the Group's net gearing ratio was 33.7%. The Group's interest expense for the year was HK$9.36 billion, and the weighted average borrowing cost was 4.30%, both were among the best in the industry.

CREDIT RATINGS

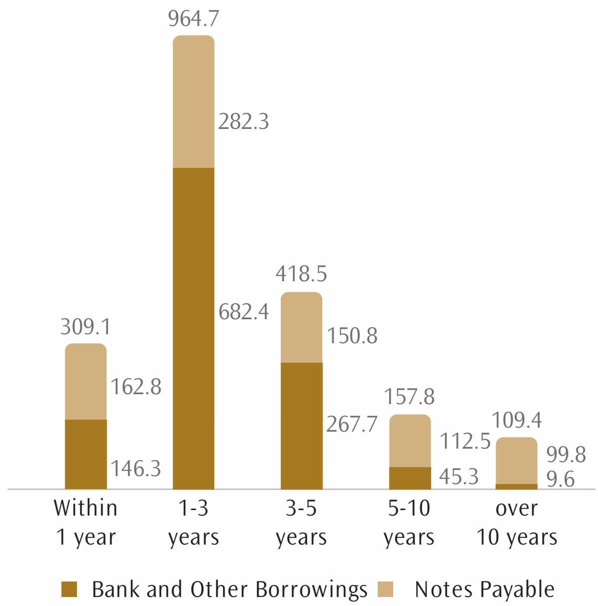
The financial strength continued to grow with the Company's shareholders' funds increased to HK$283.48 billion at the end of the year. During the year, our credit ratings from the three major international credit rating agencies were: Fitch A-/Stable, Moody's Baa1/Stable, Standard & Poor's BBB+/Stable. In addition, China Overseas Property Group Co. Ltd., a subsidiary of the Group, was rated as AAA/Stable by United Credit Ratings Co., Ltd. Domestic and international rating agencies have given the Group the highest investment ratings in the domestic property development sector for years, reflecting the capital market's high recognition of the Group's sound financial position and solvency, as well as the confidence in the Group's continuous and high-quality development.

FINANCING AND TREASURY MANAGEMENT

The Group continues to enhance its financial resources and optimise its debt structure. During the year, the Group completed a number of onshore and offshore financing activities. In April 2018, the Group accurately grasped the critical window of the capital market to successfully issue two senior notes with a maturity period of five-year and ten-year each at a total amount of USD1.5 billion. In October 2018, the Group also successfully issued a six-year corporate bond with a face value of RMB3.5 billion and a coupon rate of 4.00% which is a record-low interest rate at the time of issuance for domestic corporate bonds issued by a real estate enterprise since 2017, and the largest issue of single-category corporate bonds by an AAA-grade real estate enterprise since 2018. During the year, the Group also arranged a number of onshore and offshore bilateral loans for refinancing and working capital purposes.

INTEREST BEARING DEBTS MATURITY PROFILE AT 31 DECEMBER 2018

HK$100 million



Management Discussion and Analysis (continued)

GROUP FINANCE *(continued)*

FINANCING AND TREASURY MANAGEMENT *(continued)*

The Group has excellent credit standing in Hong Kong and international financial markets. During the year, mindful of the need to continuously optimise its debt structure and plan ahead for the uncertain capital environment, the Group negotiated a HK$30 billion five-year club loan agreement with 20 banks, which was successfully signed in January 2019. The borrowing cost was one of the lowest in the industry over the period and the loan is the largest bank financing arrangement in the history of the Group in Hong Kong. Ahead of time, the Group successfully undertook the refinancing of non-RMB offshore interest-bearing debts due in 2019 and early 2020. In addition, the Group successfully issued RMB3.5 billion corporate bond in mainland China in January 2019. Among them were a six-year corporate bond with a face value of RMB2.0 billion and a coupon rate of 3.47%; and a seven-year corporate bond with a face value of RMB1.5 billion and a coupon rate of 3.75%. Again, these two types of corporate bonds set the lowest interest rate on corporate bonds with same maturity in the domestic market since 2017. Looking ahead, the Group will closely monitor the developments in the financial markets and carefully consider appropriate financing methods and opportunities.

RISKS OF EXCHANGE RATE AND INTEREST RATE VOLATILITY

The year witnessed major volatility in both exchange and interest rates. The RMB exchange rate rose, slumped and rebounded slightly. The mainland market, after experiencing a credit contraction and some cuts in the reserve requirement ratio (RRR), maintained adequate liquidity while the market terminal interest rate moved downward. The US Federal Reserve raised interest rates four times, strengthening the US dollar. The cost of overseas financing gradually increased.

During the year, the Group actively seized opportunities, took control of the borrowing costs, and properly planed the debt maturity, as a result, risks pertaining to interest rate are controllable. At 31 December 2018, 51.1% of the Group's borrowings were fixed-rate, and 48.9% of the Group's borrowings were floating-rate (of which 6.8% will be due within one year, 63.2% after one year but within three years, 30.0% after three years).

In 2019, the domestic economic cycle and Sino-US trade frictions significantly impacted the exchange rate. The domestic macroeconomy still faces downward pressures. Monetary policy holds steady at an appropriate balance of looseness and tightness, and countercyclical adjustments are strengthened. Market interest rates are expected to fall. At the same time, the market has lowered expectations of any interest rate increase from the US Federal Reserve.

In the future, the Group will closely monitor the potential for interest rate movements and consider the factors that might generate large fluctuations in the exchange rates between the HK dollar, RMB and US dollar. The Group has never participated in any speculative trading of derivative financial instruments, but will carefully consider whether to conduct currency and interest rate swaps at an appropriate time to hedge against corresponding risks. The Board believes that the Group's exchange rate and interest rate risks are relatively controllable.

CONTINGENT LIABILITIES

At 31 December 2018, the Group provided, in line with usual business practice, buy-back guarantees for the repayment of bank mortgage loans amounting to HK$45.85 billion granted to certain buyers of the Group's properties. The Group had counter indemnities amounting to HK$23.4 million for guarantees issued in respect of certain construction contracts undertaken by the Group. The Group has never incurred any loss in the past as a result of granting such guarantees.

CHARGE OF ASSETS

At 31 December 2018, all the Group's assets are free from any encumbrances.

Management Discussion and Analysis (continued)

OPERATIONAL AND FINANCIAL POSITION ANALYSIS

In 2018, the Group adhered to its prudent investment strategy, effectively replenished its land reserves, enhanced its customer research, maintained research and development of innovative products, improved customer satisfaction, built a comprehensive digital operation and management platform, and fully optimised process management which has improved quality, progress, cost control and the Group's ability to create value. During the year, the Group's strategic and business goals were achieved through stable and healthy operation and enhanced efficiency. Key performance indicators achieved satisfactory results, including contracted property sales, sales proceeds collections, gross profit margin, operating profit, land reserves and return on shareholders' funds.

OPERATING RESULTS ANALYSIS

During the year, the revenue of the Group increased to HK$171.46 billion (2017: HK$166.04 billion), representing an increase of 3.3% as compared to last year. The operating profit was HK$70.73 billion (2017: HK$62.87 billion), representing an increase of 12.5%. The gross profit margin increased by 4.9 percentage points from 32.9% in last year to 37.8%, and the net profit margin reached 26.2%, maintaining at industry-leading level. The ratio of selling and distribution costs and administrative expenses to revenue was 3.3%, which remained one of the lowest in the industry. Profit attributable to equity shareholders of the Company amounted to HK$44.90 billion (2017: HK$40.77 billion), representing an increase of 10.1%. The average return on shareholders' funds was 16.4%. Basic earnings per share was HK$4.10 (2017: HK$3.72), an increase of 10.1%.

In 2018, with the depreciation of RMB, the Group recorded exchange losses amounting to HK$2.86 billion (2017: exchange gains of HK$2.14 billion), of which exchange losses of HK$1.72 billion (2017: exchange gains of HK$2.46 billion) were recognised in profit or loss for the year, and exchange losses of HK$1.14 billion (2017: HK$320 million) were capitalised to properties under development.

At 31 December 2018, the equity attributable to shareholders of the Company was HK$283.48 billion (2017: HK$265.69 billion), an increase of 6.7% as compared to last year end, while the net assets per share was HK$25.87 (2017: HK$24.25). At the end of December, the Group's financial position was good with ample cash resources of HK$100.56 billion and net gearing of 33.7%.

PROPERTY DEVELOPMENT

Revenue from property development was HK$167.04 billion (2017: HK$162.14 billion), mainly related to property projects including Paramount Jade in Jinan, The Grace in Nanjing, La Cite in Fuzhou, One Blossom Cove in Guangzhou, The Paragon in Shenzhen, Blossom Land in Nanjing, La Cite in Tianjin, International Community in Yantai, Glory Mansion in Harbin.

Segment profit (including the Group's share of profits of associates and joint ventures) amounted to HK$62.52 billion (2017: HK$51.45 billion), an increase of 21.5% as compared to last year.

PROPERTY INVESTMENT

Rental income from the Group's investment properties amounted to HK$3.53 billion (2017: HK$2.45 billion), an increase of 44.1% as compared to last year. Through the year, the Group was more active in identifying and exploiting synergies and creating commercially attractive brands. Also, the investment properties completed were put into operation as planned during the year. These led to the increase in rent, occupancy rate and leased area.

Segment profit amounted to HK$12.46 billion, an increase of 24.6%, which includes the gain arising from changes in fair value of investment properties amounting to HK$10.41 billion (net gain attributable to the Group after deferred tax was HK$7.81 billion).

OTHER OPERATIONS

During the year, revenue from other operations amounted to HK$890 million (2017: HK$1.45 billion), of which income from hotels and other commercial properties was HK$530 million (2017: HK$490 million), an increase of 8.2%.

Management Discussion and Analysis (continued)

OPERATIONAL AND FINANCIAL POSITION ANALYSIS *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND DEBT STRUCTURE

The Group continues to adhere to the principle of prudent financial management. Finance, fund utilisation and fundraising activities are subject to effective centralised management and supervision. The Group considers carefully the cost of funding onshore and offshore and strives to maintain reasonable gearing level and cash balances.

The overall financial position of the Group was satisfactory. At 31 December 2018, the net current assets were HK$317.90 billion, the current ratio was 2.3 times, interest cover was 7.8 times and the weighted average borrowing cost was 4.30%, which were at an outstanding level in the industry.

The Group's interest cover is calculated as follows:

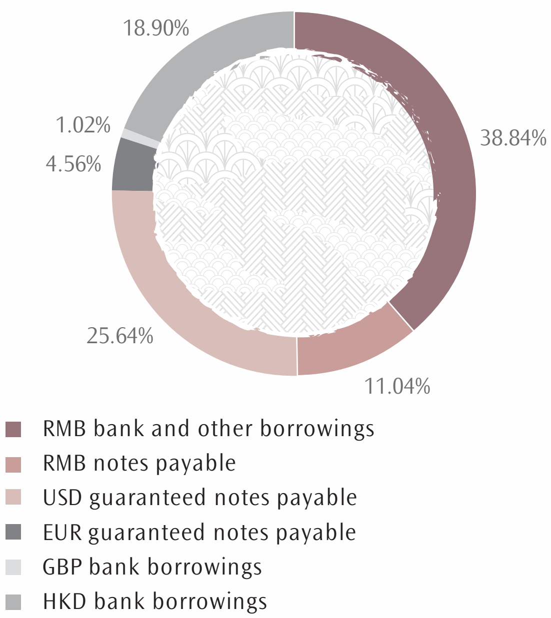
	2018 (HK$ million)	2017 (HK$ million)
Operating profit	**70,732**	62,874
Deducting:		
Total interest income	**1,802**	1,537
	68,930	61,337
Interest expense*	**8,791**	7,495
Interest coverage ratio (times)	**7.8**	8.2

* *Before capitalisation and excluding interest on amounts due to non-controlling shareholders.*

During the year, the Group raised fund from onshore and offshore debt financing amounted to HK$46.69 billion. Total repayment of matured debts amounted to HK$23.59 billion. Sales proceeds collection increased to HK$178.49 billion as compared to last year. Total capital expenditure payments for the Group were HK$161.43 billion (of which HK$117.02 billion was spent on land premium and HK$44.41 billion was spent on construction-related expenditure). About HK$37.18 billion was paid for taxes, selling and distribution costs, administrative expenses and financing expenses. At the end of December 2018, unpaid land premium of the Group was HK$17.63 billion.

At 31 December 2018, bank and other borrowings and notes payable of the Group were HK$115.13 billion and HK$80.82 billion respectively. Total interest-bearing debts amounted to HK$195.95 billion, of which HK$30.90 billion will be matured within a year, accounting for 15.8% of total interest-bearing debts. Among the total interest-bearing debts, 18.9% was denominated in Hong Kong dollars, 25.6% was denominated in US dollars, 49.9% was denominated in Renminbi, 4.6% was denominated in Euros and 1.0% was denominated in Pounds Sterling. The fixed-rate debts accounted for 51.1% of overall interest-bearing debts, while the floating-rate debts accounted for 48.9%.

INTEREST BEARING DEBTS BY CURRENCY AT 31 DECEMBER 2018



Management Discussion and Analysis (continued)

OPERATIONAL AND FINANCIAL POSITION ANALYSIS *(continued)*

Repayment schedule	2018 (HK$100 million)	2017 (HK$100 million)
Bank and other borrowings		
Within one year	146.3	133.3
More than one year, but not exceeding two years	374.8	104.6
More than two years, but not exceeding five years	575.3	770.3
More than five years	54.9	27.6
Total bank and other borrowings	1,151.3	1,035.8
Notes payable		
10-year (US$1.0 billion, due November 2020)	77.4	77.3
10-year (US$700 million, due November 2022)	54.0	53.9
30-year (US$300 million, due November 2042)	23.0	23.0
5-year (US$500 million, due October 2018)	–	38.7
10-year (US$500 million, due October 2023)	38.6	38.5
30-year (US$500 million, due October 2043)	38.4	38.4
5-year (US$550 million, due May 2019)	42.6	42.6
5-year (US$250 million, due May 2019)	19.4	19.4
10-year (US$450 million, due May 2024)	34.7	34.7
10-year (US$250 million, due May 2024)	19.7	19.7
20-year (US$500 million, due June 2034)	38.4	38.4
5-year (US$750 million, due April 2023)	58.3	–
10-year (US$750 million, due April 2028)	58.1	–
4-year (EUR600 million, due July 2019)	53.7	56.0
4-year (EUR400 million, due November 2019)	35.8	37.3
3-year (RMB3.404 billion, due November 2021)	38.9	84.3
7-year (RMB1.0 billion, due November 2022) (ii)	11.4	12.1
10-year (RMB6.0 billion, due August 2026) (ii)	68.7	72.3
2-year (RMB1.015 billion, due December 2020)	11.5	48.0
5-year (RMB1.0 billion, due January 2021) (i)	11.3	12.0
3-year (RMB3.0 billion, due February 2021)	34.3	–
6-year (RMB3.5 billion, due October 2024) (i)	40.0	–
Total notes payable	808.2	746.6
Total borrowings	1,959.5	1,782.4
Deducting:		
Bank balances and cash	1,005.6	1,040.5
Net borrowings	953.9	741.9
Equity attributable to owners of the Company	2,834.8	2,656.9
Net gearing ratio (%)	33.7%	27.9%

(i) The notes payable with terms for interest rate adjustment and sell back option at the end of the third year from issue date

(ii) The notes payable with terms for interest rate adjustment and sell back option at the end of the fifth year from issue date

At 31 December 2018, the Group's available funds amounted to HK$122.21 billion comprising bank balances and cash of HK$100.56 billion (including HK$8.0%, USD4.6%, RMB86.2%, and GBP1.1% and a minimal amount of other currencies) and unused banking facilities of HK$21.65 billion.

OPERATIONAL AND FINANCIAL POSITION ANALYSIS *(continued)*

MAJOR RISKS AND UNCERTAINTIES

The business and prospects of the Group mainly depend on the performance of the property market in mainland China, Hong Kong and Macau and are therefore affected by the risks associated with the property market in mainland China, Hong Kong and Macau, such as policy changes, exchange rate fluctuations, interest rate changes, adjustments of tax rules, and imbalances in supply and demand. In addition, the operation of the Group is also unavoidably affected by various industry-specific risk factors in property development, property investment and related businesses. Also, misconducts from buyers, tenants, and strategic business partners or other related factors may have negative impact to various extents on its operation. The Group has formulated accident prevention systems and policies and endeavors to avoid occurrence of unexpected financial loss, litigation or reputational damage. In future, the Group will closely monitor changes in these risks and the environment. It will also pay attention to interest rate risk and foreign exchange risk and take early measures to reduce the impact on its business.

Directors and Organisation

(From left to right) **Mr. GUO Guanghui, Mr. YAN Jianguo, Mr. LUO Liang**

Directors and Organisation (continued)

BOARD OF DIRECTORS

Executive Directors

Mr. YAN Jianguo
Chairman, Executive Director and Chief Executive Officer
Aged 52, graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989, and obtained an MBA degree from Guanghua School of Management in Peking University in 2000 and a PhD degree in Marketing from Wuhan University in 2017. Mr. Yan joined 中國建築集團有限公司 (China State Construction Engineering Corporation) in 1989 and had been seconded to the Company twice. During the year 1990 to 1992, he had been working for the Shenzhen Branch of China Overseas Property Group and had held a number of positions, including site engineer and department head. He was assigned to the Company again from 2001 to 2011 and had been Assistant General Manager of Guangzhou Branch, Deputy General Manager of Shanghai Branch, General Manager of Suzhou Branch, General Manager of Shanghai Branch, Vice Managing Director of China Overseas Property Group and President of Northern China Region. Mr. Yan had worked in 中國建築集團有限公司 (China State Construction Engineering Corporation) from 2011 to June 2014 and had been Director of the General Office, General Manager of Information Management Department, Chief Information Officer and Assistant General Manager. Mr. Yan joined Longfor Properties Co. Ltd. in June 2014 (listed on the Stock Exchange of Hong Kong, Stock Code: 960) and resigned on 5 December 2016. During the period, he had held a number of positions including Executive Director and the Senior Vice President. Mr. Yan was appointed Executive Director and Chief Executive Officer of the Company from 1 January 2017 and has become Chairman of the Company and continues to serve as Chief Executive Officer of the Company from 13 June 2017. Besides acting as the Chairman, Executive Director and Chief Executive Officer of the Company, Mr. Yan is currently Vice Chairman and President of China Overseas Holdings Limited and a director of certain of its subsidiaries, the Chairman and Non-Executive Director of China Overseas Property Holdings Limited and China Overseas Grand Oceans Group Limited, and also a director of the subsidiaries of the Company. Mr. Yan has also been appointed as Chairman and Non-executive Director of China State Construction International Holdings Limited on 22 March 2019. China Overseas Holdings Limited is the substantial shareholder of the Company within the meaning of the SFO. He has about 29 years' experience in construction business, real estate investment and management.

Mr. LUO Liang
Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect
Aged 54, graduated from Huazhong University of Science and Technology, holder of Master degree, Professor Level Senior Architect. He joined the Group in 1999. Mr. Luo has been appointed as the Chief Architect of the Group and one of its subsidiaries from 18 October 2002 and 2 February 2018 respectively, the Executive Director of the Company from 22 March 2007, the Vice President of the Company in August 2009 and the Executive Vice President and Chief Operating Officer of the Company from 26 May 2017. Besides acting as the Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect of the Company, Mr. Luo is currently a Director of certain subsidiaries of the Group. Mr. Luo has about 30 years' architectural experience.

Mr. GUO Guanghui
Executive Director and Vice President

Aged 46, graduated from Nanjing University of Science & Technology, holder of a master's degree, and is a senior accountant and a non-practising member of The Chinese Institute of Certified Public Accountants. He joined the Company and its subsidiaries in 2006 and is currently the Vice President of the Company and a director of certain subsidiaries of the Group. Mr. Guo has about 24 years' management experience in corporate finance and accounting. He was appointed an executive Director of the Company with effect from 12 June 2018.

Directors and Organisation (continued)

Non-Executive Director

Mr. CHANG Ying
Non-Executive Director
Aged 46, holds a Master degree from the University of New South Wales in Australia and a Master degree from Southeast University in the PRC. Mr. Chang was appointed as a Non-Executive Director of the Company from 15 September 2016. He joined CITIC Real Estate Co., Ltd. in April 2006 and was Executive Vice President of CITIC Real Estate Co., Ltd. and Managing Director and Chief Executive Officer of CITIC Real Estate (Beijing) Investment Co., Ltd., the Deputy General Manager of Strategic Development Department of CITIC Limited before 31 December 2017. He is currently the vice chairman of CITIC Urban Development & Operation Co., Ltd.. Mr. Chang has about 19 years' extensive experience in real estate and investment industry.

Independent Non-Executive Directors

Mr. LAM Kwong Siu
SBS and GBS
Independent Non-Executive Director,
Chairman of the Remuneration Committee,
Member of the Audit and Risk Management Committee,
Member of the Nomination Committee
Aged 84, joined the Board as an Independent Non-Executive Director of the Company on 30 September 2003 and has served the Company for about 15 years. Mr. Lam is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Company and has been appointed as Chairman of the Remuneration Committee of the Company on 3 August 2015. He was the Delegate of the Tenth National People's Congress. He is the Vice Chairman of BOC International Holdings Limited, the Honorary Chairman of Hong Kong Federation of Fujian Associations, the Life Honorary Chairman of Hong Kong Fukien Chamber of Commerce, the Vice Chairman of Fujian Hong Kong Economic Cooperation, the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Adviser of the Hong Kong Chinese Enterprises Association, the Honorary President of the Chinese Bankers Club of Hong Kong and the non-executive Director of Bank of China International Limited. Mr. Lam is also an Independent Non-Executive Director of Fujian Holdings Limited, Xinyi Glass Holdings Limited, Yuzhou Properties Company Limited, Far East Consortium International Limited and Vico International Holdings Limited. Mr. Lam has over 55 years' continuous banking and finance experience.

Directors and Organisation (continued)

Dr. FAN HSU Lai Tai, Rita
GBM, GBS, JP
Independent Non-Executive Director,
Chairman of the Nomination Committee,
Member of the Audit and Risk Management Committee,
Member of the Remuneration Committee

Aged 73, joined the Board as an Independent Non-Executive Director of the Company on 2 February 2009 and has served the Company for more than 9 years. Dr. Fan is also a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee of the Company and has been appointed as Chairman of the Nomination Committee of the Company on 2 February 2009. She is one of Hong Kong's best-known public figures and has an outstanding track record of service to the community. Dr. Fan was appointed to the Legislative Council from 1983 to 1992 and was a Member of the Executive Council from 1989 to 1992. She became the President of the Provisional Legislative Council in 1997, and has since been re-elected as the President of the First, Second and Third Legislative Council. Her term of office ended on 30 September 2008. Dr. Fan has served as President of the legislature of the Hong Kong Special Administrative Region ("**HKSAR**") for 11 years.

In the lead-up to Hong Kong's reunification with China, Dr. Fan played a valuable role as a Member of the Preliminary Working Committee for the Preparatory Committee for the HKSAR from 1993 to 1995 and of the Preparatory Committee for the HKSAR from 1995 to 1997. She was elected as a Hong Kong Deputy for the Ninth to Twelfth sessions of the National People's Congress ("**NPC**") during 1998 to 2018, and served as a Member of the Eleventh and Twelfth sessions of the Standing Committee of the NPC from 2008 to 2018. Dr. Fan was elected the Chairman of the council of Endeavour Education Centre Limited from March 2016.

After graduating from St. Stephen's Girls' College, Dr. Fan studied at the University of Hong Kong, and was awarded a Bachelor degree in Science, and later on, received a Master degree in Social Science. She also received the Honorary Doctorate in Social Science from the University of Hong Kong, the City University of Hong Kong, the Hong Kong Polytechnic University, and the Education University of Hong Kong respectively, and an Honorary Doctorate in Law from the China University of Political Science and Law of the People's Republic of China. Her record of public service has been acknowledged by the HKSAR Government through the award of the Gold Bauhinia Star in 1998 and Hong Kong's top award, the Grand Bauhinia Medal, in 2007.

She is also an Independent Non-Executive Director, a Member of the Audit Committee, the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited); and an Independent Non-Executive Director and the Chairman of the Remuneration Committee of The Bank of East Asia, Limited.

She served as an Independent Non-Executive Director, a Member of the Nomination Committee, the Audit Committee and the Chairman of the Remuneration Committee of China Shenhua Energy Company Limited; and an Independent Non-Executive Director, a Member of the Nomination Committee and the Chairman of the Remuneration Committee of COSCO SHIPPING Holdings Co., Ltd.* (formerly known as China COSCO Holdings Company Limited).

* *English translation is for identification only.*

Directors and Organisation (continued)

Mr. LI Man Bun, Brian David
JP, MA (Cantab), MBA, FCA
Independent Non-Executive Director,
Chairman of the Audit and Risk Management Committee,
Member of the Nomination Committee,
Member of the Remuneration Committee

Aged 44, Mr. Li joined the Board as an Independent Non-Executive Director of the Company on 19 March 2013 and was appointed Chairman and Member of the Audit and Risk Management Committee, Member of the Nomination Committee and Member of the Remuneration Committee on the same day. Mr. Li is an Executive Director & Deputy Chief Executive of The Bank of East Asia, Limited ("**BEA**"), primarily responsible for BEA's China and international businesses. Mr. Li joined BEA in 2002 and served as General Manager & Head of Wealth Management Division from July 2004 to March 2009. Mr. Li was subsequently appointed Deputy Chief Executive in April 2009 and Executive Director in August 2014.

Mr. Li is currently an Independent Non-Executive Director and Chairman of the Board Audit and Risk Committee of Towngas China Company Limited, and an Independent Non-Executive Director and Chairman of the Remuneration Committee of Hopewell Highway Infrastructure Limited.

Mr. Li holds a number of public and honorary positions, including being a member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the Government of the Hong Kong Special Administrative Region, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council, Chairman of the Traffic Accident Victims Assistance Advisory Committee, and a member of the Aviation Development and Three-runway System Advisory Committee.

He is a member of the Hong Kong-Europe Business Council, a member of the Hongkong-Japan Business Co-operation Committee and a member of the Asian Financial Forum Steering Committee. He is also a Vice Chairman of the Asian Financial Cooperation Association and a member of the Financial Consulting Committee for the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen.

Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. He is also a Full Member of the Treasury Markets Association. Mr. Li holds an MBA degree from Stanford University and a BA degree from the University of Cambridge.

Directors and Organisation (continued)

SENIOR MANAGEMENT

Mr. ZHANG Yi

Vice President of China Overseas Land & Investment Ltd.

Aged 52, graduated from Tianjin University of Finance & Economics and Peking Economics University (now known as Capital University of Economics and Business) and Graduate Economics Training Center at Renmin University of China, holder of a master's degree, senior economist. He joined 中國建築集團有限公司(formerly known as 中國建築工程總公司)(China State Construction Engineering Corporation) in 1994 and was seconded to the Group during the year. Mr. Zhang has about 25 years' management experience in public relation and investment strategy.

Mr. QI Dapeng

Vice President of China Overseas Land & Investment Ltd.

Aged 49, graduated from Jilin University and Harbin Institute of Technology, holder of a master's degree, senior accountant. He joined the Group in 1997, and has about 27 years' experience in finance and corporate management.

Mr. GUO Yong

Vice President of China Overseas Land & Investment Ltd.

Aged 56, graduated from Chongqing Jianzhu University (now known as Chongqing University) and holds a Master of Business Administration degree from Troy State University, Alabama, USA, senior engineer. He joined the Group in 1993, and was the Executive Director of the Company during the period from March 2013 to October 2015. He is currently the Vice President of the Company. Mr. Guo has about 35 years' management experience in engineering management and corporate management.

Mr. KAN Hongbo

Vice President of China Overseas Land & Investment Ltd.

Aged 56, graduated from Hefei University of Technology and holder of a master's degree, professorate senior engineer. He joined the Group in 1995, and was the Executive Director of the Company during the period from March 2013 to October 2015. He is currently the Vice President of the Company. Mr. Kan has about 35 years' management experience in engineering management.

Mr. OUYANG Guoxin

Vice President of China Overseas Land & Investment Ltd.

Aged 51, graduated from Chongqing Normal University, holder of an Executive Master of Business Administration from Tsinghua University and a Doctor of Economics from Peking University, senior economist. He joined the Group in 1997. Mr. Ouyang has about 28 years' experience in construction and corporate management.

Mr. ZHUANG Yong

Vice President of China Overseas Land & Investment Ltd.

Aged 42, graduated from Chongqing University, holder of a master's degree, senior engineer. He joined the Group in 2000. Mr. Zhuang has about 19 years' experience in corporate management.

Mr. CHEN Deyou

Vice President of China Overseas Land & Investment Ltd.

Aged 48, graduated from Valparaiso University, holder of a master's degree, senior accountant, senior economist. He joined 中國建築集團有限公司 (formerly known as 中國建築工程總公司)(China State Construction Engineering Corporation) in 1993, and joined the Group in 2017. Mr. Chen has about 26 years' management experience in corporate finance and law.

Mr. LUI Sai Kit, Eddie

Chief Financial Officer of China Overseas Land & Investment Ltd.

Aged 55, has a Master Degree in Business Administration from University of Ottawa in Canada. Mr. Lui is a member of the Hong Kong Institute of Certified Public Accountants, the American Institution of Certified Public Accountants, the Chartered Institution of Management Accountants of United Kingdom and the Chartered Professional Accountants of Canada. Mr. Lui joined the Group in 2018 and has about 32 years' experience in financial management and corporate financing.

Directors and Organisation (continued)

Mr. ZHANG Zhichao
Vice President of China Overseas Land & Investment Ltd.
Aged 40, graduated from Southeast University. He joined the Group in 2001. Mr. Zhang has about 18 years' management experience in construction and corporate management.

Ms. XU Xin
Assistant President of China Overseas Land & Investment Ltd.
Aged 50, graduated from Beijing Institute of Civil Engineering and Architecture (now known as Beijing University of Civil Engineering and Architecture), holder of a Master of Business Administration from Cheung Kong Graduate School of Business, senior engineer. She joined a subsidiary of 中國建築集團有限公司(formerly known as 中國建築工程總公司)(China State Construction Engineering Corporation) in 1995, and joined the Group in 2014. Ms. Xu has about 28 years' experience in construction, engineering and corporate management.

Mr. XU Wendong
Assistant President of China Overseas Land & Investment Ltd.
Aged 52, graduated from Harbin Institute of Civil Engineering and Architecture (now known as Harbin Institute of Technology), architect. He joined the Group in 2001. Mr. Xu has about 31 years' experience in architectural design and corporate management.

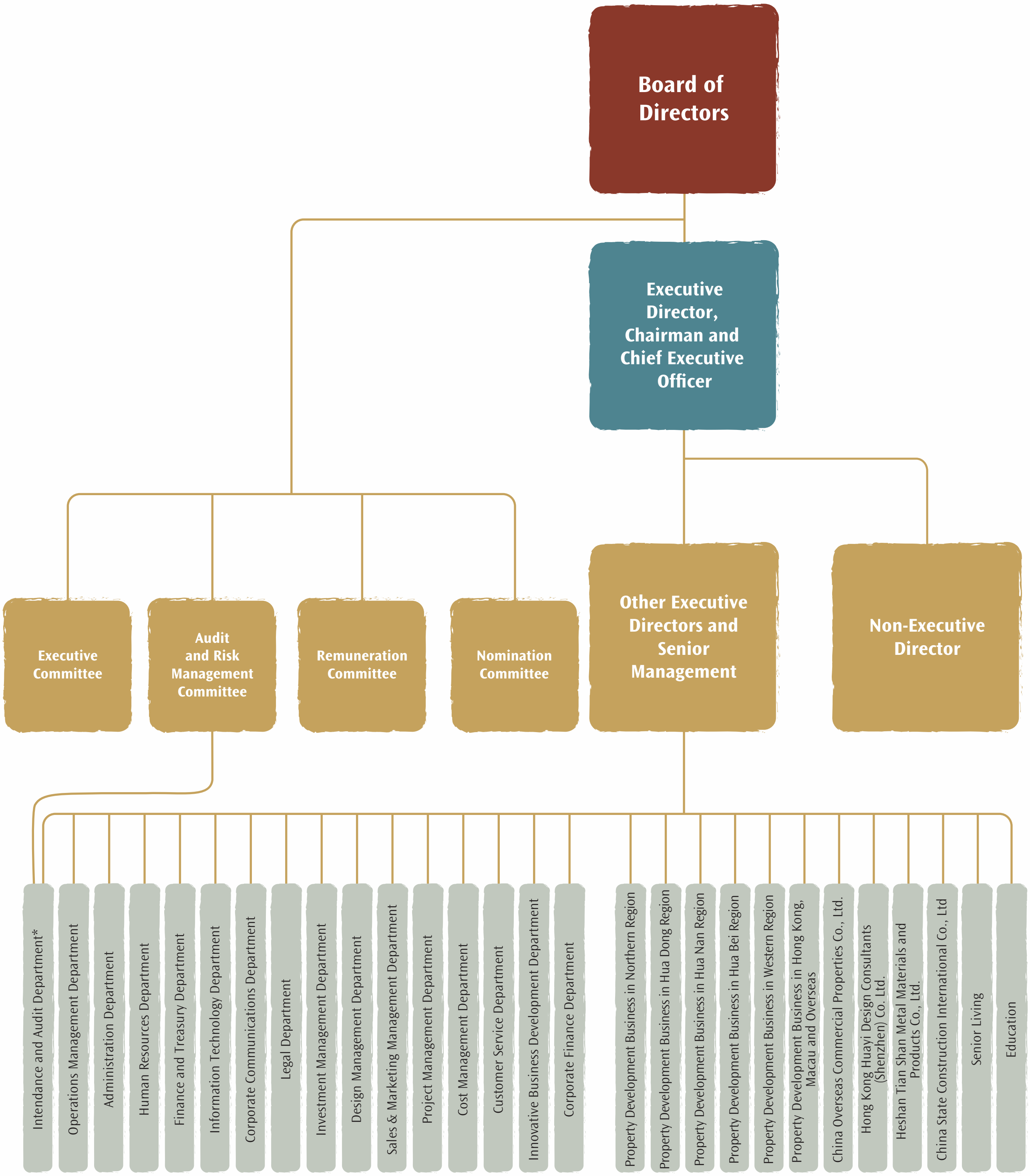
Mr. LIU Xianyong
Assistant President of China Overseas Land & Investment Ltd.
Aged 47, graduated from Harbin University of Architecture and Engineering (now known as Harbin Institute of Technology), senior economist. He joined the Group in 1995. Mr. Liu has about 24 years' experience in marketing and corporate management.

Mr. XU Feng
Assistant President of China Overseas Land & Investment Ltd.
Aged 43, graduated from Zhejiang University, senior engineer. Mr. Xu joined 中國建築集團有限公司(formerly known as 中國建築工程總公司)(China State Construction Engineering Corporation) in 1999, joined the Group in 2004. Mr. Xu has about 20 years' management experience in human resources management and corporate management.

Mr. LIU Huiming
Assistant President of China Overseas Land & Investment Ltd.
Aged 41, graduated from Tsinghua University, holder of a master's degree, senior engineer. He joined the Group in 2003. Mr. Liu has about 16 years' management experience in construction and corporate management.

Directors and Organisation (continued)

ORGANISATION CHART OF CHINA OVERSEAS LAND & INVESTMENT LIMITED



* *Risk Management Team is set under Intendance and Audit Department.*

Corporate Social Responsibility

Home owners in Jinan holding "Xiurong Millet" gift pack on "China Overseas Family Reunion Banquet"

Corporate Social Responsibility

The Group always pursues practicality and credibility, continuously fulfilling its corporate social responsibility through business development, social responsibility and environmental protection efforts. During the year, the Group continued to effectively provide customer service, promote staff development, embrace environmental protection and offer community service.

During the year, the Group issued its sixth "Sustainability Report" detailing the efforts and results of the Group in the concerned areas. The Company's consistent inclusion as a constituent stock of the "Hang Seng Corporate Sustainability Index Series" and the "Hang Seng (Mainland and HK) Corporate Sustainability Index" since their launch in 2010 underlines the Group's longstanding top-notch performance in environmental protection, social responsibility and corporate governance.

CUSTOMER SERVICE

COLI's national customer service line

Customers are the driving force behind the Group's efforts in sustainable development and product innovation. The Group embraces customer satisfaction as an indicator in performance appraisals, and continuously improves products and services based on the interests of customers. During the year, the Group adhered to the development philosophy of "Each and Every Detail of Each and Every Project", carrying out quantitative quality inspections throughout the Group, increasing the frequency of flight quality inspection, strictly controlling quality, ensuring the highest possible standards in our products, all with the aim of meeting customers' quality living needs.

The Group attaches great importance to listening to our customers and pressed forward with its "Door Knocking Plan", in which middle to senior executives personally visit customers. Independent collaborators were engaged to conduct mystery customer visits, and the Group took on board customer complaints and opinions to continuously improve performance. The Group launched a "Home Improvement Plan" beyond the warranty period for some residential communities, offering specialised maintenance and upgrading of old facilities and equipment for a better communal environment for our customers.

The Group established the first building security service system in China, called Officare, investing in and taking ownership of the business. The system includes AED devices (automated external defibrillators) to help at life-threatening emergencies, SOS of Internet of Things emergency response system and personnel trained in AED use and first aid, aiming to provide customers with more comprehensive, supportive and humane value-added services, improve customer self-help and mutual rescue capabilities, and offer customers all-round assurance of their personal safety.

During the year, China Overseas Property Club ("COPC") attracted approximately 40,000 new customers, for a total of more than 220,000 members in 34 clubs. COPC has organised hundreds of community activities. The traditional "China Overseas Family Reunion Banquet" community event offered an occasion to strengthen harmony in communities, attracting neighbours to come out of their homes and engage with each other. The signature community health event "China Overseas Run for Fun" provided young people with the opportunity to exercise and meet each other, and continues to attract more and more homeowners.


The traditional "China Overseas Family Reunion Banquet"

Corporate Social Responsibility (continued)

STAFF DEVELOPMENT


Beach Fun Day for Staff

Employees are key to the success of the company, and the Group's human resources strategy focuses on employee "talent" and "satisfaction". Through continuously refining performance appraisal and remuneration systems, vigorously improving the working environment and continuously enriching social activities, employee job satisfaction levels and sense of belonging have greatly improved. At the end of December, the Group employed approximately 5,900 employees. During the year, the Group's staff costs were HK$2.88 billion.

During the year, the Group focused on strengthening targeted pre-job and pre-employment training. The Group established a training system for new recruits, which encompassed "Sons of the Sea Pilot Training Class", "Stars of the Sea Pilot Training Class" and "Sea's Recruits Orientation Camps" along with other talent training programmes. The daily training was based on the system of "Starting, Continuing, Racing and Leading". At all levels, the Company conducted 506 key training sessions, cultivating and upgrading the professional skills of more than 21,000 staff members, providing them with rich career development resources.

The Group continued to expand its recruitment pipeline to secure elite talent for the business. In addition to upgrading the two employee brands, "Sons of the Sea" and "Sea's Recruits", the Group launched the "Stars of the Sea" campus recruitment brand, which is tailored for sales, business, education and senior living positions. The scheme has been well received by universities and students. The Group practises open selection and internal recruitment, striving to achieve equal work and promotion opportunities with healthy competition and fair development for internal talent.

In respect of the work-life balance of employees, the Group organises a range of employee networking activities including mountaineering, long-distance running and tea parties, which enrich the cultural life of employees and enhance team cohesiveness. During the year, the Group upgraded office and canteen equipment to optimise employees' office and dining experience, enhancing comfort at work and the staff's sense of belonging.

The Group provides all employees with annual routine medical examinations and supplementary medical insurance, to enhance medical protection for staff members and promote their physical and mental health. The Group has also established an employee care programme to provide support and assistance to employees who are ill or have difficulties.

With outstanding performance in talent development and corporate governance, the Group once again won a Grand Slam of three awards including "China's Real Estate Industry Best Employer Award 2018", "China's Real Estate Industry Best Human Resources Team Award 2018" and "China's Real Estate Industry Talent Cultivation Enterprise Award 2018".

中海·海纳
PREMIER TALENT RECRUITMENT

海之星
STAR OF CHINA OVERSEAS PROPERTY

Corporate Social Responsibility (continued)

ENVIRONMENTAL PROTECTION

Green-initiative gathering with owners

The Group combines smart technological development for the new era, looking to the projected green and healthy living needs of its future customers. It relentlessly innovates and practises green building technologies, exploiting its years of product innovation experience to actualise smart and healthy communities, environmentally friendly low-carbon cities, accomplishing and promoting green building construction.

The Group complies with and is committed to exceeding legislated environmental requirements, and transforms green real estate research and development results into technical standards and systems that are implemented by the Company. The Group complies with China's Evaluation Standard of Green Building and American LEED evaluation criteria, and has created the "Green Building Characteristics Investigation Report", "Green Building Implementation Method", "Technical Guidance for Green Building" and "Technical Manual for Green Building" to guide the green building design practices of the Company. The Group is committed to the environmental protection philosophy of "Smart Technology, Green and Health".

The Group actively creates new concepts of green building and practises industrialisation of buildings. Through the use of five major industrial core technologies — standardised design, industrialised production, prefabricated construction, integrated decoration and information management — the Group improved its efficiency, promoted the reuse of materials, reduced on-site wet work and limited pollution. During the year, the Group undertook a total of 58 industrialised construction projects under construction with an industrialised construction area covering 7.7 million sq m. The Group vigorously promoted environmentally friendly and energy-saving construction, reduced dust and noise on construction sites, promoted prefabricated residences, increased the delivery of designed interiors and subsequently reduced pollution from redecorations, vigorously adopted energy-saving technologies such as aluminium moulds, cast-in-situ external walls, and plaster-free processes, and gave preference to contractors and suppliers who implemented environmental management practices.

During the year, the Group secured green building certification for 42 new projects, with a building area of 8.57 million sq m. At the end of 2018, the Group had obtained a total of 134 green building certifications, with a total area of 26.01 million sq m. In progress for certification and declaration were a further 93 projects, covering a construction area of 20.17 million sq m. At year end, the Group's commercial projects had obtained a total of 22 green building certifications, including 19 LEED and three green certifications, with a total construction area of 1.54 million sq m.

The Group has extensively promoted the "energy conservation starts from me, green sharing" energy-saving initiative in the offices and sales halls of its various levels of companies, through insisting on and fully implementing networked approval processes, paperless offices, promoted low-carbon operations in workspaces and commercial properties, and enhanced energy consumption management and waste management, separation and recycling.

Thanks to its outstanding green development practices, the Group was awarded first place in "China's Listed Real Estate Enterprise Green Credit Ranking Top 50". Concurrently, The Paragon by Shenzhen China Overseas was crowned one of the top ten projects in the "2018 China Exemplary Innovative Green Building" awards.

China Overseas International Center, Chengdu, awarded LEED Gold

Shenzhen Contemporary Art Centre and Urban Planning Exhibition Hall, awarded green building design label — three stars

Corporate Social Responsibility (continued)

CHARITY EVENTS

Annual art exchange programme "Children's Dreams, Children's Art"

"Sea of Hope" signing ceremony for promotion of Lan county's millet crop

With its charity guided by the philosophy of "The Sea Has No Limit And Love Has No Boundary", the Group pursues its charitable practices in the field of education, continuously invests in Hope Schools and wherever the Group operates. As part of its wholeheartedly giving back to society, during the year, the Group donated and completed its 12th Hope School — China Overseas Jiangkou Hope School in Zhangzhou, Jiangxi. The Hope Schools donated by the Group are the best schools with the best hardware, the highest standards, and highest quality and high specifications. Beyond construction of the buildings, the Group continues to provide support for the future development of young people, offering teacher-student exchange activities and scholarships.

The Group actively engaged its main business in the construction of affordable housing and the renovation of shantytowns. During the year, an area equivalent to 1.49 million sq m of the Group's various types of affordable housing were built in more than 20 cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Jinan, Fuzhou, Xiamen, Qingdao, Xi'an and Urumqi, to address housing difficulties for low-income families. The Group is contributing to residential upgrades for hundreds of thousands of people — it is carrying out the largest shantytown renovation project in Shandong Province, in Jinan Huashan, which has a total construction area of over 10 million sq m; "Beixinan Project", on Chang'an Street in Beijing, is the largest shantytown renovation project in the capital, with a total GFA of 3.2 million sq m, which will contribute to the upgrading of housing for hundreds of thousands of people.

The Group's new "Sea of Hope" charitable initiative in Shanxi's Lan County was tailored for the locality, establishing a new model for systematic poverty alleviation that makes use of the county's existing millet crop. Leveraging the resourcefulness of its millions of clients and customers, the Group's model opens up sales for poverty-affected counties with their geographically characteristic agricultural products, and assists farmers to stand on their own. The "Xiurong Millet" brand of millet was launched in Lan County, Shanxi Province, and helped local farmers to complete the cycle of production, processing, packaging, and the opening of online stores. The Group also acquired hundreds of thousands of catties of millet and conducted 210 tailored marketing campaigns across the country, participated in by more than 100,000 customers. Establishing the brand "Xiurong Millet" boosted sales for the farmers. Since going online more than three months ago, "Xiurong Millet" has sold more than thousands of packets of millet online and offline.

The Group also carried out targeted poverty alleviation work in four poverty-affected counties — Wuxi county in Chongqing, and Kangle county, Zhuoni county and Kang county in Gansu province.

Receiving visitors at Beixinan Project

Paramount Jade, Jinan

Corporate Social Responsibility (continued)

MARCH

Earth Hour charity event

In support of this year's Earth Hour charity event, more than 20 of the Group's offices in 11 cities across the country switched off the lights for an hour to promote environmental protection. The offices of China Overseas responded to environmental causes with practical action to reduce the burden on the planet and support the creation of a sustainable future.

MAY

"Love Sports, Love Action" fun games for staff

The Group's Changsha Business Management Company organised the "Love Sports, Love Action" fun games for staff, where a gift of love was donated for each employee who successfully completed the charity run. A total of more than 100 employees participated in the games and 115 love gifts were donated to the disadvantaged students of Nancheng Community.

JUNE

Under the Group's theme of "Caring for the Growth of Vulnerable Children", China Overseas Plaza in Jinan joined hands with more than ten high-quality tenant enterprises in the building to set up the China Overseas Plaza Charitable Teaching Team to offer volunteer teaching in Dangxi Primary School and Xiushan Primary School in Jinan, bringing the children books, school supplies and other materials, as well as taking them to special experience courses, such as classes to learn English, invent electrical gadgets, catwalk as child models and being mini-security guards.

AUGUST

"Xiurong Millet"

The Group signed an agreement on locally tailored poverty alleviation initiative with Shanxi Lan County. The Group selected millet, a local agricultural product, as a tool to industrial poverty alleviation and help poor farmers increase their incomes and rise from poverty. The initiative helped farmers launch the "Xiurong Millet" product brand, acquired more than 300,000 catties of their millet, invested in substantial processing plants to refine the grains, and marketed the millet to the community and alongside the Group's new properties throughout the country.

Corporate Social Responsibility (continued)

SEPTEMBER

The construction of China Overseas Jiangkou Hope Primary School was completed and handed over. The opening ceremony was successfully held in Ganzhou city.

Jiangkou Hope Primary School

NOVEMBER

Shaling Hope Primary School

The Group's Shenyang Business Management Company held a visit to the China Overseas Shaling Hope Primary School. In the spirit of environmental protection, employees biked for 26 km and distributed learning and daily necessities to outstanding Hope School students, extending the charitable spirit.

Accolades & Awards 2018

Award	Organiser
2018 No.1 in China Real Estate Industry — Leading Company Brand & Brand Value (RMB72.256 billion)	Enterprise Research Institute of Development Research Centre of State Council of PRC, Institute of Real Estate Studies of Tsinghua University, China Index Academy
2018 No.1 in the 15th Blue Chip Real Estate Developer (15 consecutive times)	The Economic Observer
Hang Seng Corporate Sustainability Index — Constituent Company	Heng Sang Indexes Company Limited
2017 No.1 in China Sizable Listed Companies Credit TOP 80	Standard Real Estate Research
2018 No.1 in Real Estate Enterprise Green Credit Rankings Top 50	China Investment Association Investment Consultation Commission, Standard Ranking
ARC International Awards 2018 Content Design: Real Estate Development	MerComm, Inc

Accolades & Awards 2018 (continued)

Award	Organiser
Carbon Care ESG Label	CarbonCare InnoLab
China Property Award of Supreme Excellence	The Hong Kong Institute of Financial Analysts and Professional Commentators Limited
2017 LACP — Top 100 Report Worldwide Ranking at #20	LACP
Asian Excellence Award (Best CEO — Investor Relations)	Corporate Governance Asia
Asian Excellence Award (Best Investor Relations)	Corporate Governance Asia
The Asset Corporate Awards 2018 — Platinum	The Asset
Top 100 Hong Kong Listed Companies Selection — Top 100 Hong Kong Stocks	Finet Group, QQ.com
Hong Kong Outstanding Enterprises 2018 — Blue Chip Category	Economic Digest
2018 No. 3 in Real Estate Developer Poverty Alleviation	Standard Real Estate Research

Investor Relations

The management and Corporate Communications Department of the Group update investors (including shareholders, bond investors and analysts) on the Group's performance and business operations through various channels. Following the release of interim and annual results, press conferences, analyst meetings and post results road shows are held to meet with investors, collect opinions and answer queries directly. The Group voluntarily discloses certain unaudited operating and financial data on a quarterly basis, and announces property sales results and new land acquisitions on a monthly basis to improve the transparency of information disclosure.

The Group communicates and connects closely with investors and interacts with them through conferences arranged by investment banks, company visits and site visits to property projects. During the year, the Group participated more than 170 investor meetings, 20 investment conferences, organised 10 deal/non-deal roadshows and 2 reverse roadshows.

With a gradual interconnection between the Hong Kong and mainland China stock market and bond market, the Group maintains regular communications with mainland investors, and further expands into mainland capital market.

Investors from all sectors can obtain more information about the Group by clicking on the page "Investor Relations" at the Group's website.

Investor Relations (continued)

MAJOR INVESTOR RELATIONS ACTIVITIES IN 2018

Months	Activities
January	BNP Paribas Asia Pacific Financials & Property Conference UBS Greater China Conference db Access China Conference 2018 Nomura China Property Corporate Day
March-May	Announcement of 2017 annual results • Press conference • Analyst briefing • Post results road shows UBS Hong Kong/China Property Conference 2018 Macquarie Greater China Conference 2018 HSBC 5th Annual China Conference Morgan Stanley 4th Annual China Summit
June	CIMB China/Hong Kong Property Corporate Day Haitong Property Corporate Day HSBC 2nd Annual Asia Credit Conference CICC Investment Conference 2H2018 Credit Suisse China/Hong Kong Property Corporate Day 2018 Citi Asia Pacific Property Conference 2018
August	Announcement of 2018 interim results • Press conference • Analyst briefing • Post results road shows
September-December	25th CLSA Investors' Forum Credit Suisse 9th Annual China Investment Conference CICC Investment Forum 2018 13th Citi China Investor Conference 2018 Industrial Securities 2019 Investment Conference Huatai Securities 2019 Investment Conference

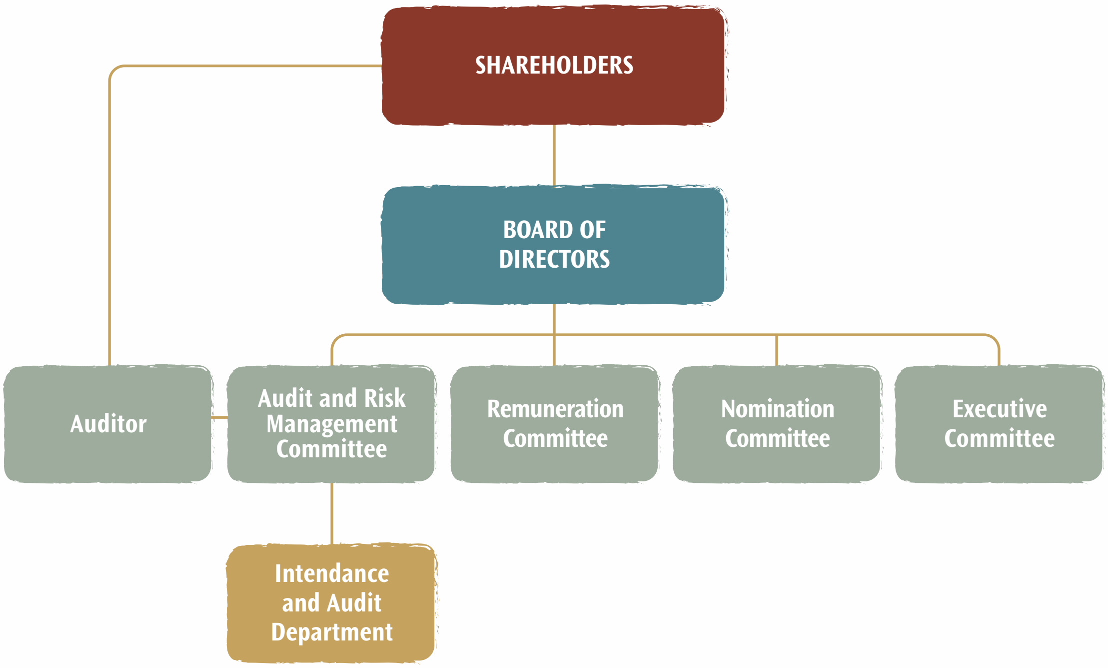
Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "**Board**") recognizes good corporate governance is essential to attaining long-term and sustainable growth of the business and is committed to high standard of corporate governance. The Company and its subsidiaries (collectively the "**Group**") strive to achieve this commitment by adopting accountability and transparency as the cornerstone of the Company's corporate governance framework.

CORPORATE GOVERNANCE STRUCTURE

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



BOARD OF DIRECTORS

Management Functions

The Board is responsible for managing the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as the Company's business strategies, budgets, major investments as well as mergers and acquisitions. The Board established the Executive Committee on 23 August 2018 and delegates its responsibilities of day-to-day operations of the business to the Executive Committee. In addition, the directors of the Company (the "**Directors**") have acknowledged that the principal responsibilities of the Board include supervising and administrating the operation and financial position of the Company, enhancing corporate governance practices and promoting the communication with its shareholders.

Corporate Governance Report (continued)

BOARD OF DIRECTORS *(continued)*

Board Composition

The Board currently has seven members drawn from diverse and complementary backgrounds and experience:

Name of Directors	Background
Mr. Yan Jianguo *(Chairman, Executive Director and Chief Executive Officer)*	Construction business, real estate investment and management
Mr. Luo Liang *(Executive Director, Executive Vice President, Chief Operating Officer and Chief Architect)*	Architecture
Mr. Guo Guanghui *(Executive Director and Vice President)*	Corporate finance and accounting
Mr. Chang Ying *(Non-executive Director)*	Real estate and investment
Mr. Lam Kwong Siu *(Independent Non-executive Director)*	Banking and finance
Dr. Fan Hsu Lai Tai, Rita *(Independent Non-executive Director)*	Government and public administration
Mr. Li Man Bun, Brian David *(Independent Non-executive Director)*	Banking and finance

Mr. Nip Yun Wing resigned as the executive Director on 3 April 2018 due to retirement. On 12 June 2018, the Board accepted the recommendation of the Nomination Committee and appointed Mr. Guo Guanghui as the executive Director.

The biographical details of the Directors and the relationships among the Directors, if any, are set out in the section headed "Directors and Organisation" on pages 74 to 81 of this annual report.

During the year, the Company has complied with Rules 3.10 and 3.10(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") regarding the appointment of at least three independent non-executive directors including at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

Directors' Independence

The Board has received annual written confirmation of independence from each of the independent non-executive Directors. The Board believes that, as at the date of this annual report, all independent non-executive Directors are independent of the Company in accordance with the relevant requirements.

Corporate Governance Report (continued)

BOARD OF DIRECTORS *(continued)*

Chairman and CEO

Code A.2.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**") stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yan Jianguo ("**Mr. Yan**") has become the chairman (the "**Chairman**") and the chief executive officer (the "**Chief Executive Officer**") of the Company since 13 June 2017.

The Board considers that vesting both roles in one individual would result in more consistent leadership of the Group. Also, taking into account Mr. Yan's experience and knowledge in property development and commercial property management, the Board is confident that Mr. Yan will assist the Group in formulating comprehensive, competitive, long-term and substantial business strategies and plans and implementing them accordingly.

In respect of the checks and balances on Mr. Yan's power and authority, the Board considers that different duties and roles of the Chairman and the Chief Executive Officer of the Company have been clearly defined since June 2007. Also, the Board, which comprises experienced and high calibre individuals together with the check-and-balance mechanism of the Company, can monitor the exercising of power and authority by Mr. Yan. In any event, the Board will review this arrangement from time to time and will consider the appropriate adjustment if suitable circumstances arise.

Appointments, Re-Election and Removal

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

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

Directors' Securities Transactions

The Company has adopted a set of code of conduct for securities transactions by Directors ("**Code of Conduct**") on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers. Having made specific inquiries to all Directors, they confirmed that they have complied with the Code of Conduct throughout the year of 2018.

Directors' and Officers' Liabilities Insurance

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

Supply of and Access to Information

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

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

Corporate Governance Report (continued)

BOARD OF DIRECTORS *(continued)*

Supply of and Access to Information *(continued)*

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

Directors' Training

According to the records of directors' training maintained by the Company, during the financial year under review, all current Directors have participated continuous professional developments to refresh their knowledge and skills. Details of the type of training they received are set out as follows:

	Type of Training (see remarks)
Directors	
Mr. Yan Jianguo	A, B, C
Mr. Luo Liang	C
Mr. Guo Guanghui (appointed in June 2018)	C
Mr. Chang Ying	A, C
Mr. Lam Kwong Siu	A, B, C
Dr. Fan Hsu Lai Tai, Rita	A, C
Mr. Li Man Bun, Brian David	A, C

Remarks:

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

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

CORPORATE STRATEGY AND BUSINESS MODEL

The Group is striving to achieve its strategic goal of "to be an exceptional global property development corporation", expanding and creating better livings around its principle business of property development and operation, continually strengthening its three major businesses — "Residential Development", "Urban Services" and "Design Services". At the milestone of 40 years of development, the Group firmly believes the measure of a good business is whether it qualifies as "a Company of Four Excellences", offering "good products and good services", and demonstrating "good effectiveness and good citizenship". The Group will maintain its strategies and stay committed to its vision "to be an exceptional global property development corporation", firmly adhering to its operating philosophy of "good products, good services, good effectiveness and good citizenship", maintaining its positioning in major cities, mainstream areas and mainstream products, and stride through market cycles to better and faster development.

Details of the Group's business and financial review in the year 2018 are set out in the section headed "Chairman's Statement" of this annual report.

Corporate Governance Report (continued)

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

Risk Management and Internal Controls

The Board is responsible for overseeing the risk management and internal control systems and reviewing their effectiveness. The Board is also responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take when achieving the Company's business objectives, and supervising the management to establish and maintain appropriate and effective risk management and internal control systems. The management is responsible for establishing and maintaining appropriate and effective risk management and internal control systems, and providing the Board with confirmation of the effectiveness of these systems.

The Board has implemented effective risk management and internal control systems and procedures to safeguard the Company's assets and the interests of shareholders, to ensure that reliable financial information will be provided to management and for the purpose of publication and to ensure that significant investments and business risks affecting the Company can be identified and properly managed. However, risk management and internal control systems are designed to manage, rather than eliminate, the risk of failing to achieve business objectives and control the risk of failure of the Company's operating systems, and it can only provide reasonable, but not absolute, assurance against misrepresentation or loss.

Risk Management

The Company has established a sound risk management framework. The Board, the Audit and Risk Management Committee, the Management Level Risk Management Committee, the Risk Management Taskforce and business line, together with the Intendance and Audit Department, form the risk management system of the Company which aims at carrying out risk assessment for various sectors and constant risk monitoring.

During the year, the Risk Management Taskforce of the Company expanded its risk assessment works to cover regional, district and professional corporate levels of the Company based on risk assessment standards and risk management protocols. By deriving the Company's annual risk events from data collection, consolidation and analysis was established and conducting preliminary assessment of those risk issues by functional departments at the headquarter, preliminary priority on the risk issues was established and existing measures and management procedures of corresponding risk issues were implemented. At the meetings of the Management Level Risk Management Committee, the team determined the Company's annual risk management issues and their priorities, established risk management procedures and designated risk management departments and risk responsible persons. The final annual risk issues and management plans shall be submitted to the Audit and Risk Management Committee and the Board for consideration.

During the year, the Risk Management Taskforce of the Company established a routine coordination mechanism between functional departments and subordinate companies to coordinate management and supervision in order to improve risk management collectively. The team also continued to monitor changes in material risks and the implementation of countermeasures, integrate the risk management works into the course of business operation of the Company and entrench the risk management works in the organisational operation and the process of achieving the business goal.

Corporate Governance Report (continued)

ACCOUNTABILITY AND AUDIT *(continued)*

Risk Management and Internal Controls *(continued)*

Internal Control

The Company has established appropriate internal control system. In relation to relevant procedures of investment, operation, finance and compliance, the management of the Company has designed and implemented a series of systems, policies and programs and has monitored the implementation and effectiveness of such policies and programs. Key control measures are set out below:

The Company assigns job roles based on the control requirements over division of labor to establish a work scheme where every job role fulfills its own responsibilities and imposes a check-and-balance against each other. In respect of business approval, the Company has put in place control over authorization and approval and clarified the authority, approval program and corresponding duties of each position in respect of business operation and matter. For daily approval operation, the efficiency and effectiveness of control over authorization and approval is assured through automatic control on an information platform. The Company has devised standardized accounting procedures and a specific business audit system to enhance account management and uplift the quality and level of accounting tasks. To guarantee the authenticity and integrity of accounting data and information, the Company continues to develop and perfect its financial information system.

Through comprehensive budget management, the Company ascertains responsibility and authority for each level unit in budget management and regulates the preparation, review and execution program of budget. It implements dynamic budget management to assess the result of budget execution. The Company is always impartial, transparent and performance-oriented when conducting interim and year-end assessments so that the results of the performance assessment can be referred to for the remuneration allocation, talent promotion and nurturing, workforce reinforcement, salary and benefit adjustments, etc..

In addition, the Company has established the Intendance and Audit Department, which is responsible for the internal audit function, assisting the Board and the Audit and Risk Management Committee in on-going monitoring of the risk management and internal control systems of the Company, identifying the deficiencies in the design and implementation of risk management and internal controls and proposing appropriate recommendations for improvement. Significant internal control deficiencies, if identified, will be reported to the Audit and Risk Management Committee and the Board on a timely basis. Remediation plans will be established and a responsible person will be appointed for a timely follow-up to ensure improvement to the situation.

Review of Risk Management and Internal Control Systems

The Intendance and Audit Department (the "**Department**") regularly reviews the work of risk management and internal control of the Company every half year and reports to the Audit and Risk Management Committee and the Board. In the report to the Audit and Risk Management Committee and the Board, the Department discusses the major risks of the business of the Company and determines whether the risk management and internal control systems are effective. The Audit and Risk Management Committee will consider and assess the risks of the Company and the control measures to be taken to manage the risks. The Audit and Risk Management Committee will also review the findings of the Department's review on the Company's business and operation of the control systems and the implementation plan, and its proposal for addressing any deficiency of the control systems. In addition, the external auditors host regular discussion with the Audit and Risk Management Committee on any internal control problem identified in the course of the audit. After reviewing the effectiveness of the internal control system, the Audit and Risk Management Committee will report any deficiency of the system and give recommendations on managing the business risks and rectification measures to the Board. In 2018, the Board has assumed the responsibility and reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries, including financial reporting, operation and regulation compliance.

Corporate Governance Report (continued)

ACCOUNTABILITY AND AUDIT *(continued)*

Risk Management and Internal Controls *(continued)*

Review of Risk Management and Internal Control System *(continued)*
In order to optimize the risk management and internal control systems of the Company, in 2018, the Company engaged Deloitte Touche Tohmatsu ("**Deloitte**"), an independent auditor, to conduct review on the systems and audit their sufficiency to be effectiveness. Upon reviewing the Department's report and the audit result of Deloitte, the Board considered that the systems to be effective and efficient. During the year under review, no material deficiency of the systems was found, and appropriate rectification measures were taken by the Company to correct weaknesses in its control (if any). The Board believes the systems are operated effectively and reviewed and found that various risks that may affect the Company's achievement of goals are under control.

The Board had also reviewed and found that the headcount, qualification and experience of the staff of the audit, internal audit and financial reporting functions of the Company as well as training programs and budget were sufficient.

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

DELEGATION BY THE BOARD

Board Proceedings

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

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

The proceedings of the Board meetings apply to the Board committee meetings.

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

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

Corporate Governance Report (continued)

DELEGATION BY THE BOARD *(continued)*

Board Committees

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

Executive Committee

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

- To review and approve loans or banking facilities to be granted to the Company, its subsidiaries, jointly controlled entities and associated companies and the opening of bank or securities related accounts matters;
- To review and approve financial instruments to be issued by the Company, its subsidiaries, jointly controlled entities and associated companies;
- To review and approve grant of loan or other financial assistance to the Company's jointly controlled entities and/or associates;
- To review and approve provision of corporate guarantees, indemnity and/or letter of comfort by the Company for its subsidiaries, jointly controlled entities and/or associates;
- To review and approve land auctions or tenders, and contracts in the ordinary and usual course of business of the Company; and
- To deal with any other specific business delegated by the Board.

The Executive Committee, which comprises all executive Directors, shall report to the Board on a regular basis and the resolutions passed by the Executive Committee from time to time shall be tabled for the information of all Directors at the Board meetings.

During the year, the Executive Committee held eleven meetings to (amongst other matters) review and approve:

- various bank loans and facilities;
- provision of corporate guarantee for the subsidiaries, joint controlled entities and/or associates of the Company; and
- land auctions and contracts in the ordinary and usual course of business of the Company.

Corporate Governance Report (continued)

DELEGATION BY THE BOARD *(continued)*

Audit and Risk Management Committee

The principal duties of the Audit and Risk Management Committee are as follows:

- To review and monitor the integrity of the financial information of the Group;
- To review the financial control, internal control and risk management systems of the Company; and
- To oversee the matters relating to the external auditor.

The Audit and Risk Management Committee comprises three members, namely Mr. Li Man Bun, Brian David, Mr. Lam Kwong Siu and Dr. Fan Hsu Lai Tai, Rita, all of whom are independent non-executive Directors. The Audit and Risk Management Committee is chaired by Mr. Li Man Bun, Brian David. For the purpose of reinforcing their independence, at least one of the members of the Audit and Risk Management Committee has appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit and Risk Management Committee held four meetings during 2018 and reviewed:

- the Group's financial reports for the year ended 31 December 2017, interim and quarterly results;
- the audit plans from the external auditor;
- the internal and independent audit results;
- the connected transactions entered into by the Group;
- risk management, internal control and financial reporting systems; and
- the re-appointment of the external auditor and their remuneration.

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

Remuneration Committee

The principal duties of the Remuneration Committee are as follows:

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

Corporate Governance Report (continued)

DELEGATION BY THE BOARD *(continued)*

Remuneration Committee *(continued)*

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

During the year, the Remuneration Committee has the following members and all of them are independent non-executive Directors:

- Mr. Lam Kwong Siu *(Chairman)*
- Dr. Fan Hsu Lai Tai, Rita
- Mr. Li Man Bun, Brian David

The Remuneration Committee held three meetings during 2018 and reviewed:

- the remuneration policy of the Group and Directors' remunerations;
- the remuneration package of individual executive Directors and non-executive Directors; and
- grant of the share options pursuant to the Share Option Scheme (as defined in section headed "Share Option Scheme" in this annual report with details set out thereto).

Nomination Committee

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

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

When selecting individual to be nominated for directorship, the Nomination Committee will have regard to the Procedure regarding Appointment, Election and Removal of Directors of the Company (equivalent to the nomination policy of the Company and hereafter referred to as "**Nomination Policy**") which has come in force since 27 May 2014. Individual to be nominated shall satisfy the requirements as set out in the Listing Rules including that the nominee should have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with his or her position as a Director.

Further, the Board has adopted a board diversity policy effective since 6 August 2013 in order to achieve a sustainable and balanced development of the Company. Board diversity takes into account number of aspects, including but not limited to gender, age, educational background, professional experience, knowledge, culture and length of service. All Board appointments will be based on merit and selection of candidates will be based on a range of diversity factors. The Nomination Committee is responsible for reviewing this policy (if necessary), making recommendation to the Board of the amendment of this policy and developing measurable objectives to implement this policy and for monitoring progress towards the achievement of these objectives.

Corporate Governance Report (continued)

DELEGATION BY THE BOARD *(continued)*

Nomination Committee *(continued)*

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

In addition, the process and procedure of nominating a director is regulated under the nomination policy of the Company. A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are experienced and high calibre individuals. All candidates must be able to meet the standards set out in the Listing Rules.

During the year, the Nomination Committee has the following members and all of them are independent non-executive Directors:

- Dr. Fan Hsu Lai Tai, Rita *(Chairperson)*
- Mr. Lam Kwong Siu
- Mr. Li Man Bun, Brian David

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

COMPANY SECRETARY

Mr. Keith Cheung resigned as the Company Secretary of the Company effective from 30 October 2018 and Mr. Edmond Chong was appointed as the Company Secretary of the Company on 30 October 2018. According to the Rule 3.29 of the Listing Rules, both Mr. Keith Cheung and Mr. Edmond Chong have taken no less than 15 hours of relevant professional training during the year.

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

Corporate Governance Report (continued)

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene a General Meeting

Shareholder(s) of the Company can request the Directors to convene a general meeting in pursuance of section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") by fulfilling the conditions below:

(i) One or more shareholder(s) in aggregate holding not less than 5% of the total voting rights of the Company carrying the right to vote at general meetings may send request(s) to the Company in hard copy form or in electronic form.

(ii) Such request(s):

 (1) Must state the general nature of the business to be dealt with at the meeting;

 (2) May include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

 (3) May consist of several documents in like form; and

 (4) Must be authenticated by the person or persons making it.

Procedures for Shareholders to Put Forward Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a shareholders' meeting are set out in the Corporate Governance section of the Company's website.

(ii) Shareholder(s) can request the Company to circulate a statement (or notice of a resolution that may properly be moved and is intended to be moved at the annual general meeting) to members of the Company entitled to receive notice of a general meeting (or annual general meeting, where applicable), in pursuance of section 580 (or section 615, in the case of annual general meeting) of the Companies Ordinance subject to the following:

 (1) The statement should be of not more than 1000 words and with respect to:

  (a) A matter mentioned in a proposed resolution to be dealt with at that meeting; or

  (b) Other business to be dealt with at that meeting.

 (2) Each shareholder may only request the Company to circulate:

  (a) One such statement with respect to the resolution mentioned in (1)(a) above; and

  (b) One such statement with respect to the other business mentioned in (1)(b) above.

Corporate Governance Report (continued)

SHAREHOLDERS' RIGHTS *(continued)*

Procedures for Shareholders to Put Forward Proposals at General Meetings *(continued)*

(ii) *(continued)*

(3) Such request(s) has to be sent by the shareholders who have a relevant right to vote and fulfill the conditions below:

(a) Shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or

(b) At least 50 shareholders.

Relevant right to vote means:

(a) In relation to a statement with respect to a matter mentioned in a proposed resolution, a right to vote on that resolution at the meeting to which the requests relate;

(b) In relation to any other statement, a right to vote at the meeting to which the requests relate; and

(c) In relation to notice of a resolution, a right to vote on the resolution at the annual general meeting to which the requests relate.

(4) Such request(s):

(a) May be sent to the Company in hard copy form or in electronic form;

(b) Must identify the statement (or notice, in the case of annual general meeting) to be circulated;

(c) Must be authenticated by the person or persons making it; and

(d) Must be received by the Company:

(aa) at least 7 days before the general meeting to which it relates;

(bb) not later than 6 weeks before the annual general meeting to which the requests relate; or if later, not later than the time at which notice of that meeting is given.

Enquiries to the Board

The "Corporate Information" of this annual report provides the registered address of the Company and the email address, fax number and telephone number of the Investor Relations team to facilitate the shareholders of the Company to address their concerns or enquiries to the Board at any time. Please mark for the attention of the Company Secretary in the incoming letters or e-mails.

Corporate Governance Report (continued)

ATTENDANCE RECORDS

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

Name of Directors	Board Meetings	Audit and Risk management Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Executive Committee Meetings	Annual General Meeting
Mr. Yan Jianguo	7/7	N/A	N/A	N/A	11/11	1/1
Mr. Luo Liang	7/7	N/A	N/A	N/A	11/11	1/1
Mr. Guo Guanghui (appointed w.e.f. 12 June 2018)	4/4	N/A	N/A	N/A	11/11	N/A
Mr. Nip Yun Wing (resigned w.e.f. 3 April 2018)	1/1	N/A	N/A	N/A	N/A	N/A
Mr. Chang Ying	7/7	N/A	N/A	N/A	N/A	1/1
Mr. Lam Kwong Siu	7/7	4/4	3/3	2/2	N/A	1/1
Dr. Fan Hsu Lai Tai, Rita	7/7	4/4	3/3	2/2	N/A	1/1
Mr. Li Man Bun, Brian David	7/7	3/4	2/3	2/2	N/A	1/1

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, fees for audit services and non-audit services payable to the auditor of the Company amounted to approximately HK$12,390,000 and HK$2,644,000 respectively. Fee payable for the non-audit services included that for professional services rendered in connection with the Group's tax advisory and reports relating to the issuance of notes payable which amounted to HK$2,556,000.

CONSTITUTIONAL DOCUMENTS

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

Report of Directors

The directors of the Company (the "**Directors**") present the annual report and the audited financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATION

The Company is principally engaged in property development and investment, and treasury operations. The activities of the Company's principal subsidiaries, associates and joint ventures are set out in notes 45, 19 and 20 respectively to the financial statements.

An analysis of the Group's performance by segment is set out in note 8 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company as well as discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing by the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" as set out on pages 14 to 73 of this annual report. These sections form part of this Report of Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 140 and 141 of this annual report respectively.

An interim dividend of HK40 cents per share was paid on 5 October 2018. The board of Directors (the "**Board**") recommends the payment of a final dividend of HK50 cents per share (2017: HK45 cents per share) to shareholders whose names appear on the Register of Members of the Company on 20 June 2019. Together with the interim dividend of HK40 cents per share (2017: HK35 cents per share), dividends for the year will amount to a total of HK90 cents per share. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on 5 July 2019.

RESERVES

Movements during the year in the reserves of the Group and of the Company (including but not limited to distributable reserves) are set out in the consolidated statement of changes in equity on pages 144 and 145 of this annual report and note 44(a) to the financial statements respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 243 and 244 of this annual report.

MAJOR PROPERTIES

Details of the major property development and commercial properties of the Group at 31 December 2018 are set out on pages 52, 53, 60 to 63 of this annual report.

TANGIBLE FIXED ASSETS

The Group's investment properties were revalued at the reporting date. The revaluation resulted in a net increase in fair value of HK$10,412,570,000 which has been credited directly to the consolidated income statement.

Details of the movement in investment properties and movements in property, plant and equipment of the Group during the year are set out in notes 16 and 17 respectively to the financial statements.

EQUITY-LINKED AGREEMENTS

For the year under review, save for the Share Option Scheme (as defined in the section headed "Share Option Scheme" in this report with details set out thereto) adopted by the Company on 11 June 2018, the Company did not enter into any equity-linked agreement.

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

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

Issue of debentures

On 6 February 2018, China Overseas Property Group Co., Ltd.* ("**CO Property**"), a wholly-owned PRC subsidiary of the Company, issued RMB3,000,000,000 5.60 per cent. medium term notes due February 2021 in PRC. The proceeds from the issue of the medium term notes are used to finance the construction projects and supplement the working capital of CO Property. The medium term notes are listed on The Inter-Bank Market of China*.

On 26 April 2018, China Overseas Finance (Cayman) VII Limited, a wholly-owned subsidiary of the Company, issued US$750,000,000 4.25 per cent. guaranteed notes due April 2023 and US$750,000,000 4.75 per cent. guaranteed notes due April 2028. The guaranteed notes are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The net proceeds, after deducting the fees and other expenses in connection with the issue of the guaranteed notes, are used to finance new and existing projects, to repay and/or refinance the existing indebtedness of the Group and for general corporate purposes.

On 22 October 2018, CO Property issued RMB3,500,000,000 4.00 per cent. corporate bonds due October 2024. The net proceeds, after deducting the expenses in connection with the issue of the corporate bonds, are used to repay the bonds issued by CO Property. The corporate bonds are listed on the Shenzhen Stock Exchange ("**SZSE**").

On 24 January 2019, CO Property issued corporate bonds with a total principal amount of RMB3,500,000,000, of which bonds of RMB2,000,000,000 bear an interest rate of 3.47 per cent. and the remaining bonds of RMB1,500,000,000 bear an interest rate of 3.75 per cent. due January 2025 and January 2026 respectively. The net proceeds, after deducting the expenses in connection with the issue of the corporate bonds, are used to repay existing indebtedness and outstanding liabilities of the Group. The corporate bonds are listed on the SZSE.

Redemption of listed securities

On 29 October 2018 (i.e., maturity date of the guaranteed notes), China Overseas Finance (Cayman) III Limited, a wholly-owned subsidiary of the Company, redeemed its US$500,000,000 3.375 per cent. guaranteed notes in whole at par. The guaranteed notes were listed on the Stock Exchange prior to redemption.

* For identification purpose only

Report of Directors (continued)

PURCHASE, SALE OR REDEMPTION OF THE GROUP'S LISTED SECURITIES *(continued)*

Redemption of listed securities *(continued)*

On 19 November 2018, CO Property partially redeemed its RMB7,000,000,000 3.40 per cent. corporate bonds due November 2021 with sell-back option at par. The corporate bonds are listed on the Shanghai Stock Exchange ("**SHSE**"). The total sell-back amount in respect of the valid sell-back declarations is RMB3,596,284,000.

On 9 December 2018, CITIC Real Estate Group Company Limited* ("**CITIC Real Estate**"), a wholly-owned PRC subsidiary of the Company, partially redeemed its RMB4,000,000,000 4.80 per cent. private corporate bonds due December 2020 with sell-back option at par. The private corporate bonds are listed on the SHSE. 2,985,000 lots of valid sell-back declarations were received with a total sell-back amount of RMB2,985,000,000.

On 15 January 2019, CITIC Real Estate partially redeemed its RMB1,000,000,000 4.40 per cent. private corporate bonds due January 2021 with sell-back option at par. The private corporate bonds are listed on the SHSE. 600,000 lots of valid sell-back declarations were received with a total sell-back amount of RMB600,000,000.

Details of the above securities (including the carrying amount) are set out in relevant announcements of the Company and note 34 to the financial statements.

BORROWINGS AND INTEREST CAPITALISED

Analysis of bank and other borrowings, notes payable and interest capitalised (including capitalisation of exchange losses) are set out in notes 33, 34 and 10 respectively to the financial statements.

DIRECTORS

(a) Directors of the Company

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

Executive Directors

Mr. Yan Jianguo	
Mr. Luo Liang	
Mr. Guo Guanghui	(appointed w.e.f. 12 June 2018)
Mr. Nip Yun Wing	(resigned w.e.f. 3 April 2018)

Non-Executive Director

Mr. Chang Ying

Independent Non-Executive Directors

Mr. Lam Kwong Siu
Dr. Fan Hsu Lai Tai, Rita
Mr. Li Man Bun, Brian David

* For identification purpose only

Report of Directors (continued)

DIRECTORS *(continued)*

(a) Directors of the Company *(continued)*

In accordance with articles 96 and 105(1) of the Company's articles of association, Mr. Yan Jianguo, Mr. Luo Liang, Mr. Guo Guanghui and Mr. Chang Ying shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, Mr. Nip Yun Wing resigned as executive Director due to retirement on 3 April 2018 and Mr. Guo Guanghui was appointed as executive Director effective from 12 June 2018.

The term of office for each independent non-executive Director is the period up to his/her retirement by rotation in accordance with the Company's articles of association.

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Company still considers the independent non-executive Directors to be independent.

No Director proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

The Company did not receive any notice in writing from any Director resigned during the year and up to the date of this report, specifying that the resignation was due to reasons relating to the affairs of the Company. The resigned Director has confirmed to the Company that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

(b) Directors of the subsidiaries of the Company

The list of directors of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at http://www.coli.com.hk under the "Corporate Governance" section.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Information regarding Directors' emoluments and senior management's emoluments are set out in notes 13 and 43(b) to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out in the section headed "Directors and Organisation" on pages 74 to 81 of this annual report.

Report of Directors (continued)

SHARE OPTION SCHEME

The share option scheme was approved and adopted by the shareholders of the Company on 11 June 2018 (the "**Share Option Scheme**") to enable the qualifying grantees to acquire ordinary shares of the Company and unless otherwise cancelled or amended, it will remain in force for 10 years from 11 June 2018. The purpose of the Share Option Scheme is to attract and retain the best quality personnel for the development of the Group's businesses, to provide additional incentives to the qualifying grantee (being, among others, any employee of the Group or such other persons that have contributed to the Group as specified in the Share Option Scheme) that have contributed to the Group; and to promote the long term financial success of the Group by aligning the interests of share option holders with shareholders of the Company.

The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue of the Company from time to time. No share options may be granted under any scheme of the Company if this will result in the limit being exceeded.

The number of shares in respect of the share options that may be granted according to the Share Option Scheme (the "**Share Options**") shall not exceed 10% of the shares in issue of the Company as at the date of adoption of the Share Option Scheme (i.e. 11 June 2018) and as at the date of this annual report. On the basis of 10,956,201,535 shares in issue as at 11 June 2018, this would be 1,095,620,153 shares.

Unless otherwise approved by the shareholders of the Company in a general meeting, the number of shares that may be granted to each of the eligible persons under the Share Options shall not exceed 1% within any 12-month period.

Unless otherwise approved by the shareholders of the Company in a general meeting, no Share Option may be granted to any substantial shareholder of the Company, independent non-executive Directors or their respective associates, that would result in the shares issued or to be issued to such person in the 12-month period up to and including the date of Board meeting proposing for the grant (i) exceeding 0.1% of the shares in issue from time to time; and (ii) in aggregate exceeding HK$5 million based on the closing price of the shares at the date of the Board meeting proposing for such grant.

The subscription price in respect of any particular Share Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Share Option, but shall not be less than whichever is the higher of (i) the closing price of the shares as stated in the Stock Exchange daily quotation sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The period within which the shares must be taken up under a Share Option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 6 years from the date of grant of the relevant Share Option.

HK$1.00 is payable by the Share Option holders to the Company on the acceptance of the offer of the Share Option and HK$404.00 has been paid.

Other details of the Share Option Scheme are set out in Appendix III to the circular published by the Company on 16 April 2018.

During the year, the Company granted 107,320,000 Share Options to 3 Directors and 401 other eligible persons to subscribe for a total of 107,320,000 shares at a subscription price of HK$25.85 per share under the Share Option Scheme.

As at 31 December 2018, 2,280,000 Share Options were lapsed with the subscription price of HK$25.85 per share. Save as disclosed above, no Share Option has been vested and no share is issuable for the outstanding Share Option granted during the year 2018 and no Share Option was granted, lapsed, exercised and cancelled.

Report of Directors (continued)

SHARE OPTION SCHEME *(continued)*

During the year, Share Options for 107,320,000 shares with a fair value on the date of grant of approximately HK$682,418,000 were granted to eligible persons in accordance with the terms of the Share Option Scheme. Details of the fair value are set out in note 32 to the financial statements.

During the year, save as disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" of this annual report, details of the movements of the Share Options under the Share Option Scheme are as follows:

		Number of Share Options									
Participants	Date of grant of Share Options *(DD.MM.YYYY)*	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31 December 2018	Total consideration paid for Share Options granted *HK$*	Exercise period of Share Options (both days inclusive)* *(DD.MM.YYYY)*	Subscription price of Share Options *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares at date immediately before the exercise date*** *HK$ (per share)*
Other eligible persons	29.06.2018	–	105,320,000	–	2,280,000	103,040,000	401	29.06.2020 to 28.06.2024	25.85	24.65	–

Notes to the above Share Options granted pursuant to the Share Option Scheme:

(a) One-third of the Share Options granted will vest on each of 29 June 2020, 29 June 2021 and 29 June 2022.

(b) Exercise of the Share Options is conditional upon the achievement of certain individual performance targets of each eligible person and certain financial performance targets of the Company as determined by the Board.

* If the last day of an exercise period is not a business day in Hong Kong, such exercise period shall end at the close of business on the business day immediately preceding that day.

** The price of the Company's ordinary shares disclosed as "immediately before date of grant" is the closing price of the shares on the Stock Exchange on the business day prior to which the Share Options were granted.

*** The price of the Company's ordinary shares disclosed as "immediately before the exercise date" is the weighted average closing price of the shares on the Stock Exchange immediately before the dates on which the Share Options were exercised by each of the Directors or all other eligible persons as an aggregate whole.

Report of Directors (continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 31 December 2018, the Directors, the chief executive officer of the Company and their respective associates had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

(a) Long Positions in Shares and Underlying Shares of the Company

(i) Long Positions in Ordinary Shares (all being personal interest and being held in the capacity of beneficial owner)

Name of Director	Number of shares held	% of shares in issue *(Note)*
Dr. Fan Hsu Lai Tai, Rita	24,000	0.0002%
Mr. Li Man Bun, Brian David	5,460,000	0.0498%

Notes: The percentage was based on the total number of shares of the Company in issue as at 31 December 2018 (i.e. 10,956,201,535 shares).

(ii) Long Positions in Share Options relating to Ordinary Shares (all being personal interest and being held in the capacity of beneficial owner)

Name of Director	Date of grant of Share Options *(DD.MM.YYYY)*	Number of Share Options: Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31 December 2018	Total consideration paid for Share Options granted *HK$*	Exercise period of Share Options (both days inclusive)* *(DD.MM.YYYY)*	Subscription price of share options *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares at date immediately before the exercise date*** *HK$ (per share)*
Mr. Yan Jianguo	29.06.2018	–	700,000	–	–	700,000	1	29.06.2020 to 28.06.2024	25.85	24.65	–
Mr. Luo Liang	29.06.2018	–	700,000	–	–	700,000	1	29.06.2020 to 28.06.2024	25.85	24.65	–
Mr. Guo Guanghui	29.06.2018	–	600,000	–	–	600,000	1	29.06.2020 to 28.06.2024	25.85	24.65	–

Notes to the above Share Options granted pursuant to the Share Option Scheme adopted by the Company on 11 June 2018:

(a) One-third of the Share Options granted will vest on each of 29 June 2020, 29 June 2021 and 29 June 2022.

(b) Exercise of the Share Options is conditional upon the achievement of certain individual performance targets of each eligible person and certain financial performance targets of the Company as determined by the Board.

* If the last day of an exercise period is not a business day in Hong Kong, such exercise period shall end at the close of business on the business day immediately preceding that day.

** The price of the Company's ordinary shares disclosed as "immediately before date of grant" is the closing price of the shares on the Stock Exchange on the business day prior to which the Share Options were granted.

*** The price of the Company's ordinary shares disclosed as "immediately before the exercise date" is the weighted average closing price of the shares on the Stock Exchange immediately before the dates on which the Share Options were exercised by each of the Directors or all other eligible persons as an aggregate whole.

Report of Directors (continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES *(continued)*

(b) Long Positions in Shares and Underlying Shares of the Associated Corporations

(all being personal interest and being held in the capacity of beneficial owner)

Name of associated corporation	Name of Director	Number of shares held *(Note 5)*	% of shares in issue *(Notes 1, 2, 3 and 4)*
China State Construction Engineering Corporation Limited ("CSCECL")	Mr. Luo Liang	294,000	0.001%
	Mr. Guo Guanghui	210,000	0.001%
China State Construction International Holdings Limited ("CSC")	Mr. Luo Liang	3,531,469	0.070%
China Overseas Property Holdings Limited ("COPL")	Mr. Li Man Bun, Brian David	1,820,000	0.055%
China Overseas Grand Oceans Group Limited ("COGO")	Mr. Luo Liang	105,000	0.003%

Notes:

1. The percentage was based on the total number of shares of CSCECL in issue as at 31 December 2018 (i.e. 41,985,174,455 shares).

2. The percentage was based on the total number of shares of CSC in issue as at 31 December 2018 (i.e. 5,049,156,668 shares).

3. The percentage was based on the total number of shares of COPL in issue as at 31 December 2018 (i.e. 3,286,860,460 shares).

4. The percentage was based on the total number of shares of COGO in issue as at 31 December 2018 (i.e. 3,423,359,841 shares).

5. Mr. Luo Liang and Mr. Guo Guanghui acquired 210,000 shares and 150,000 shares in CSCECL respectively at RMB4.866 per share on 29 December 2016 in accordance with the A-shares Restricted Stock Incentive Plan (Phase II) of CSCECL as set out in note 32 to the financial statements. CSCECL issued the bonus shares on the basis of four bonus "A" shares for every ten existing "A" shares on 29 June 2018, Mr. Luo Liang and Mr. Guo Guanghui were awarded 84,000 shares and 60,000 shares in CSCECL respectively.

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive officer of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein. None of the Directors and chief executive officer of the Company (including their spouses and children under the age of 18) had, as at 31 December 2018, any interest in, or had been granted any right to subscribe for the shares, options and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Report of Directors (continued)

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and in note 32 to the financial statements, at no time during the year, the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

Mr. Yan Jianguo, the Chairman, Executive Director and Chief Executive Officer of the Company, is also the vice chairman and president of China Overseas Holdings Limited ("**COHL**"), and the chairman and non-executive director of COGO, COPL and CSC. COHL, COGO, COPL and CSC are engaged in construction, property development, property management and related businesses.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

At 31 December 2018, the following parties (other than Directors or the chief executive officer of the Company) were the substantial shareholders (as defined in the Listing Rules) of the Company and had interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares and underlying shares held			% of shares in issue *(Note 1)*			Capacity
	(Long Position)	*(Short Position)*	*(Lending Pool)*	*(Long Position)*	*(Short Position)*	*(Lending Pool)*	
Silver Lot Development Limited ("**Silver Lot**")	521,264,928	–	–	4.76%	–	–	Beneficial owner
COHL *(Note 2)*	5,613,080,255	280,124,096 *(Note 4)*	–	51.23%	2.56%	–	Beneficial owner
	521,264,928	–	–	4.76%	–	–	Interest of controlled corporation
CSCECL *(Note 3)*	6,134,345,183	280,124,096 *(Note 4)*	–	55.99%	2.56%	–	Interest of controlled corporation
China State Construction Engineering Corporation ("**CSCEC**") *(Note 3)*	6,134,345,183	280,124,096 *(Note 4)*	–	55.99%	2.56%	–	Interest of controlled corporation

Report of Directors (continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES *(continued)*

Name of shareholder	Number of shares and underlying shares held			% of shares in issue *(Note 1)*			Capacity
	(Long Position)	*(Short Position)*	*(Lending Pool)*	*(Long Position)*	*(Short Position)*	*(Lending Pool)*	
Complete Noble Investments Limited ("**Complete Noble**") *(Notes 5 and 6)*	1,095,620,154	–	–	10.00%	–	–	Beneficial owner
Affluent East Investments Limited ("**Affluent East**") *(Notes 5 and 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Limited ("**CITIC**") *(Notes 5 and 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Glory Limited ("**CITIC Glory**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Polaris Limited ("**CITIC Polaris**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation
CITIC Group Corporation ("**CITIC Group**") *(Note 6)*	1,095,620,154	–	–	10.00%	–	–	Interest of controlled corporation

Notes:

1. The percentage was based on the total number of shares of the Company in issue as at 31 December 2018 (i.e. 10,956,201,535 shares).

2. Silver Lot is a direct wholly-owned subsidiary of COHL, thus COHL is deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which Silver Lot is or is taken to be interested.

3. COHL is a direct wholly-owned subsidiary of CSCECL, which in turn is a direct non wholly-owned subsidiary of CSCEC, thus CSCECL and CSCEC are deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which COHL is or is taken to be interested.

4. On 5 January 2016, a subsidiary of COHL issued exchangeable bonds which are exchangeable into 280,124,096 shares of the Company.

5. Complete Noble is a direct wholly-owned subsidiary of Affluent East, which in turn is a direct wholly-owned subsidiary of CITIC.

6. More than 50% of CITIC is held by CITIC Glory and CITIC Polaris, both of which are direct wholly-owned subsidiaries of CITIC Group, in aggregate. Accordingly, CITIC is an indirect non wholly-owned subsidiary of CITIC Group and Affluent East, CITIC, CITIC Glory, CITIC Polaris and CITIC Group are all deemed by the SFO to be interested in shares of the Company (including long position, short position and lending pool (if any)) in which Complete Noble is or is taken to be interested.

Save as disclosed above, the Company had not been notified by any other person (other than Directors or the chief executive officer of the Company) who had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2018, the five largest customers of the Group accounted for less than 30% of the Group's revenue. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

Definitions

In this section, the following expressions have the following meanings unless the context requires otherwise:

"COHL"	China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability, which is interested directly and indirectly, over 50% of the issued share capital of the Company
"Company"	China Overseas Land & Investment Limited
"COPL"	China Overseas Property Holdings Limited (中海物業集團有公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 2669)
"COPL Group"	COPL and its subsidiaries from time to time
"CSC"	China State Construction International Holdings Limited (中國建築國際集團有限公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 3311)
"CSC Group"	CSC and its subsidiaries (excluding listed subsidiary on any stock exchange) from time to time
"CSCEC"	中國建築集團有限公司 (formerly known as 中國建築工程總公司) (China State Construction Engineering Corporation), a state-owned corporation organised and existing under the laws of PRC, being the ultimate controlling shareholder of the Company
"CSCECL"	中國建築股份有限公司 (China State Construction Engineering Corporation Limited), a joint stock company incorporated in PRC, whose shares are listed on the Shanghai Stock Exchange. CSCECL is a subsidiary of CSCEC and holds 100% interest in COHL
"CSCECL Group"	CSCECL and its subsidiaries (excluding COHL, the Company, CSC, COPL and their respective subsidiaries) from time to time
"Group"	the Company and its subsidiaries from time to time
"FEG"	Far East Global Group Limited (遠東環球集團有限公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 830)
"FEG Group"	FEG and its subsidiaries from time to time

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

During the year under review, the Group entered into the following connected transactions or continuing connected transactions which are exempted from independent shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules or which have been approved by independent shareholders in pursuance of Rule 14A.36 of the Listing Rules:

A. Connected Transactions

(1) ***Establishment of Joint Venture for development of the land in Ezhou, Hubei Province, PRC***

On 23 August 2018, 中海地產集團有限公司 (China Overseas Property Group Co. Ltd.*) ("**CO Property**"), a wholly-owned subsidiary of the Company, entered into a co-operation agreement with 中國建築第三工程局有限公司 (China Construction Third Engineering Bureau Co. Ltd.*) ("**CCTEB**"), a wholly-owned subsidiary of CSCECL. Pursuant to the said co-operation agreement, the parties agreed to establish a joint venture project company (the "**Ezhou Company**") which shall have a registered capital of RMB100,000,000 to develop a piece of land in Ezhou, Hubei, PRC (the "**Ezhou Land**") into residential and commercial properties. The registered capital shall be equally contributed by CO Property and CCTEB and each of CO Property and CCTEB holds 50% equity interests in the Ezhou Company which is accounted for as a subsidiary of the Company.

The estimated total investment amount (excluding the registered capital) to be provided to the Ezhou Company is RMB2,200,000,000, which shall be contributed by CO Property and CCTEB in proportion to their respective equity interests in the Ezhou Company by way of shareholders' loan pursuant to the co-operation agreement.

Under the co-operation agreement, CO Property shall be responsible for managing the development of the Ezhou Land and CCTEB shall be responsible for liaising with the governmental authorities for and seeking their consent on establishment of the Ezhou Company and developing the Ezhou Land in the name of the Ezhou Company.

CSCECL is the intermediate holding company of the Company. Accordingly, CCTEB is a connected person of the Company and the co-operation agreement and the transactions contemplated thereunder constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

A. Connected Transactions *(continued)*

(2) ***Establishment of Joint Venture for development of the land in Fuzhou, Fujian Province, PRC***

On 6 December 2018, 深圳市海澤工程管理有限公司 (Shenzhen Haize Engineering Management Limited*) ("**Haize**"), a wholly-owned subsidiary of the Company, and 深圳中海建築有限公司 (Shenzhen China Overseas Construction Company Limited*) ("**SCOC**"), a wholly-owned subsidiary of CSC, entered into a co-operation agreement, pursuant to which the parties agreed to establish a joint venture project company (the "**Fuzhou Company**") with a registered capital of RMB500,000,000, which shall be equally contributed by Haize and SCOC, to develop a piece of land in Fuzhou, Fujian, PRC (the "**Fuzhou Land**") into residential and commercial properties. Each of Haize and SCOC holds 50% equity interest in the Fuzhou Company which is accounted for as a subsidiary of the Company and as an associate of CSC.

The estimated total investment amount for developing and constructing properties at the Fuzhou Land (including the registered capital of the Fuzhou Company) is RMB1,690,310,000, which shall be contributed by Haize and SCOC in proportion to their respective shareholding in the Fuzhou Company under the co-operation agreement and funded through the Company's and CSC's respective internal resources.

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

B. Continuing Connected Transactions

(1) ***Master FEG Engagement Agreement***

FEG acquired the entire equity interests in 中海監理有限公司 (China Overseas Supervision Limited*) ("**COSL**") from a wholly-owned subsidiary of CSC, the completion of which took place on 26 June 2018 (the "**Completion Date**"). As mentioned in the announcement of FEG dated 14 March 2018, prior to the Completion Date, COSL had entered into certain transactions with the Group to provide the construction supervision services in respect of the prevailing projects which would subsist after the Completion Date. After the Completion Date, COSL has become a subsidiary of FEG and these subsisting transactions have become connected transactions for both the Company and FEG. On 26 June 2018, there are 14 subsisting contracts in respect of the prevailing projects with the outstanding aggregate amount of not more than HK$65 million and payable by the Group to COSL. The principal terms of the subsisting contracts in respect of the prevailing projects are set out as follows:

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

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

B. Continuing Connected Transactions *(continued)*

(1) ***Master FEG Engagement Agreement*** *(continued)*

In addition, it is expected that the Group may continue to engage COSL for the provision of construction supervision services for its property development projects in PRC and the directors of the Company expected that the Group would invite the FEG Group to participate in competitive tenders for the provision of contracting and engineering works, project management, supervision and consultancy services as a contractor, subcontractor or service provider from time to time.

On 26 June 2018, the Company and FEG entered into a framework agreement (the "**Master FEG Engagement Agreement**"), under which, the Group may invite the FEG Group to participate in competitive tender for provision of contracting and engineering works, project management, supervision and consultancy services for the property development projects of the Group in the PRC from time to time for a period commencing from 20 August 2018 and ending on 30 June 2021. If tenders submitted by members of the FEG Group are accepted and the total contract sum awarded to the FEG Group does not exceed the corresponding cap as set out below, the Group may engage members of the FEG Group as its contractor. The principal terms of the Master FEG Engagement Agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Cap
Master FEG Engagement Agreement	The Company and FEG	26 June 2018	20 August 2018 to 31 December 2018	HK$1,200 million
			1 January 2019 to 31 December 2019	HK$1,200 million
			1 January 2020 to 31 December 2020	HK$1,200 million
			1 January 2021 to 30 June 2021	HK$800 million

The prices and terms of the tenders awarded by the Group are subject to the standard and systematic tender procedures maintained by the Group, details of which are set out in the Company's announcement of 26 June 2018. Those procedures apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to the FEG Group are no more favourable than those awarded to independent third parties.

COHL is the controlling shareholder of the Company, CSC and FEG, and CSC is the indirect holding company of FEG. Thus, members of the FEG Group are connected persons of the Company and the transactions contemplated under the Master FEG Engagement Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

B. Continuing Connected Transactions *(continued)*

(2) ***Master CSC Group Engagement Agreement***

The Company and CSC entered into an engagement agreement on 31 October 2014, pursuant to which members of CSC Group may tender for the Group's construction works in PRC, Hong Kong and Macau for a term of three years commencing from 1 January 2015 and ending on 31 December 2017.

As the Company expected that the Group would continue to invite CSC Group to participate in tenders for the construction works of the Group in PRC, Hong Kong and Macau after the expiration of the said engagement agreement, the Company and CSC entered into a new engagement agreement (the "**Master CSC Group Engagement Agreement**") on 6 October 2017, under which, CSC Group may tender for the construction works of the Group in PRC, Hong Kong and Macau. If tenders submitted by members of CSC Group are accepted and the total contract sum awarded to CSC Group under those tenders during the relevant period does not exceed the corresponding annual cap as set out below, the Company may engage members of CSC Group as its contractor. The principal terms of the Master CSC Group Engagement Agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Annual Cap
Master CSC Group Engagement Agreement	The Company and CSC	6 October 2017	1 January 2018 to 31 December 2018	HK$7,000 million
			1 January 2019 to 31 December 2019	HK$7,000 million
			1 January 2020 to 31 December 2020	HK$7,000 million

The prices and terms of the tenders awarded by the Group are subject to the standard and systematic tender procedures maintained by the Group, details of which are set out in the Company's announcement of 6 October 2017. Those procedures apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to CSC Group are no more favourable than those awarded to independent third parties.

As COHL is the controlling shareholder of both the Company and CSC, members of CSC Group are connected persons of the Group. The transactions contemplated under the Master CSC Group Engagement Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

B. Continuing Connected Transactions *(continued)*

(3) *Master CSCECL Group Engagement Agreement and the Supplemental Agreement*

On 15 April 2013, the Company and CSCECL entered into an engagement agreement, pursuant to which the Group may engage the CSCECL Group as its construction contractor in PRC for a term of three years commencing from 1 July 2013 and ending on 30 June 2016.

As the Company expected that the Group would continue to invite CSCECL Group to participate in tenders for construction related services in PRC, such as building design, construction piling and foundation, building and property fitting-out work, interior decoration, installation of air-conditioning units and elevators (the "**Construction Related Services**") after expiration of the engagement agreement, the Company and CSCECL entered into a new engagement agreement (the "**Master CSCECL Group Engagement Agreement**") on 16 May 2016. Pursuant to the Master CSCECL Group Engagement Agreement, the CSCECL Group may tender for the Group's Construction Related Services in PRC. If tenders submitted by members of the CSCECL Group are accepted and the total contract sum awarded to the CSCECL Group under those tenders during the relevant period does not exceed the corresponding cap as set out below, the Group may engage members of the CSCECL Group as its contractor. The principal terms of the Master CSCECL Group Engagement Agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Cap
Master CSCECL Group Engagement Agreement	The Company and CSCECL	16 May 2016	1 July 2016 to 31 December 2016	RMB3,000 million
			1 January 2017 to 31 December 2017	RMB6,000 million
			1 January 2018 to 31 December 2018	RMB6,000 million
			1 January 2019 to 30 June 2019	RMB3,000 million

The prices and terms of the tenders awarded by the Group are subject to the standard and systematic tender procedure maintained by the Group, details of which are set out in the announcement of the Company dated 16 May 2016. Those procedures apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to CSCECL Group are no more favourable than those awarded to independent third parties.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

B. Continuing Connected Transactions *(continued)*

(3) ***Master CSCECL Group Engagement Agreement and the Supplemental Agreement*** *(continued)*

Commencing from the year of 2018, there was a significant increase in the total contract sum of the contracts for provision of the Construction Related Services awarded to the CSCECL Group. Thus, the Board anticipated that the caps for the period of 1 January 2018 to 31 December 2018 and the period of 1 January 2019 to 30 June 2019 (collectively the "**Relevant Periods**") under the Master CSCECL Group Engagement Agreement may not be sufficient to meet the demand of the Group for the Construction Related Services in 2018 and 2019. Hence, on 17 December 2018, the Company and CSCECL entered into a supplemental agreement to revise the caps for the Relevant Periods under the Master CSCECL Group Engagement Agreement. Details of the revised caps for the Relevant Periods under the said supplemental agreement are set out as follows:

Relevant Periods	Revised Cap
1 January 2018 to 31 December 2018	RMB7,200 million
1 January 2019 to 30 June 2019	RMB3,600 million

CSCECL is the intermediate holding company of the Company. Accordingly, members of the CSCECL Group are connected persons of the Company. The transactions contemplated under the Master CSCECL Group Engagement Agreement and the said supplemental agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

B. Continuing Connected Transactions *(continued)*

(4) ***Target Services Agreement***

Before the acquisition of the entire equity interests of 中信物業服務有限公司 (the "**Service Company**") by 中海物業管理有限公司 (a wholly-owned subsidiary of COPL) (the "**Management Company**") on 20 October 2017, the Company had been engaging the Service Company and its subsidiaries (the "**Service Company Group**") to provide property management services and engineering services including automation projects, specialised engineering, and repair and maintenance and upgrade projects of equipment and machinery to residential communities, commercial properties and other properties (the "**Services**") to the Group. While the Service Company Group would continue to provide the Services to the Group in PRC after the acquisition, the Company and COPL entered into a framework agreement on 20 October 2017 (the "**Target Services Agreement**") in this respect.

Under the Target Services Agreement, the Service Company Group may tender for the Group's Services and if tenders submitted by the members of the Service Company Group are accepted, provided that the total contract sum awarded to the Service Company Group under those tenders during the relevant period does not exceed the corresponding cap as set out below, the Group may engage the Service Company Group as service provider. The principal terms of the Target Services Agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Cap
Target Services Agreement	The Company and COPL	20 October 2017	1 January 2018 to 31 December 2018	HK$48 million
			1 January 2019 to 31 December 2019	HK$51.1 million
			1 January 2020 to 30 June 2020	HK$19.8 million

The prices and terms of the tenders awarded by the Group are subject to the tender procedures maintained by the Group, details of which are set out in the announcement of the Company dated 20 October 2017. Those procedures apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to the COPL Group are no more favourable than those awarded to independent third parties.

COHL is the controlling shareholder of each of COPL and the Company. Therefore, members of the COPL Group are connected persons of the Company and the transactions contemplated under the Target Services Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

B. Continuing Connected Transactions *(continued)*

(5) ***Prevailing Services Agreement***

The Company and COPL entered into (i) a framework agreement on 9 October 2015 in respect of the provision of property management services to the Group by COPL Group and a supplemental agreement in relation thereto on 30 June 2016, and (ii) a framework agreement on 9 October 2015 in respect of the provision of engineering services to the Group by COPL Group (collectively the "**Previous Services Agreements**").

As the Company anticipated that COPL Group would continue to participate in tenders for the Group's Services and there would be an increase on demand on the Services from COPL Group under the Previous Services Agreements the Company and COPL entered into a new framework agreement (the "**Prevailing Services Agreement**") on 20 October 2017 to raise the caps and renew the transactions under the Previous Services Agreement. The principal terms of the Prevailing Services Agreement are as follows:

Name of Agreement	Parties	Date of Agreement	Period	Cap
Prevailing Services Agreement	The Company and COPL	20 October 2017	1 January 2018 to 31 December 2018	HK$634.3 million
			1 January 2019 to 31 December 2019	HK$725.2 million
			1 January 2020 to 30 June 2020	HK$420.7 million

The prices and terms of the tenders awarded by the Group are subject to the tender procedures maintained by the Group, details of which are set out in the announcement of the Company dated 20 October 2017. Those procedures apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to the COPL Group are no more favourable than those awarded to independent third parties.

COHL is the controlling shareholder of each of COPL and the Company. Therefore, members of the COPL Group are connected persons of the Company and the transactions under the Prevailing Services Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

* English translation is for identification purpose only.

Report of Directors (continued)

CONNECTED, CONTINUING CONNECTED AND RELATED PARTY TRANSACTIONS

(continued)

Annual review and confirmation regarding continuing connected transaction in accordance with Rule 14A.55 and 14A.56 of the Listing Rules

The independent non-executive Directors conducted annual review on the continuing connected transactions mentioned in this section and confirmed that those transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company also engaged auditor to report on the Group's continuing connected transactions mentioned in this section in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor issued an unqualified letter and confirmed that nothing has come to his attention that causes him to believe that the continuing connected transactions mentioned in this section:

a. have not been approved by the Board;

b. were not, in all material respects, in accordance with the relevant agreements governing such transactions; and

c. nothing has come to the attention of the auditor of the Company that causes him to believe that the continuing connected transactions disclosed have exceeded the annual cap set by the Company.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange 10 business days before bulk print of the report in pursuance of Rule 14A.57 of the Listing Rules.

The continuing connected transactions mentioned in this section also constitute related party transaction under the Hong Kong Financial Reporting Standards. A summary of significant related party transactions made during the year were disclosed in note 43 to the financial statements. Transactions under "Fellow subsidiaries" section of item (a) therein also constitute connected/continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Board confirms that the Company has complied with the disclosure requirements as required by the Listing Rules in relation to the aforementioned connected transactions or continuing connected transactions.

Report of Directors (continued)

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

INTEREST IN CONTRACTS OF SIGNIFICANCE

The transactions set out in paragraphs B(2) and B(3) of the section headed "Connected, Continuing Connected And Related Party Transactions" above are considered contracts of significance under paragraph 16 of Appendix 16 of the Listing Rules.

EMOLUMENT POLICY, BASIS OF DETERMINING EMOLUMENT TO DIRECTORS AND RETIREMENT BENEFIT SCHEME

Subject to the compliance with relevant rules and regulations, the Company implements an emolument and benefit system comprised of basic salary, incentive bonus and employee benefits. The emolument and employee benefits are reviewed at appropriate time, with reference to both the annual survey on the industry's remuneration level and the Company's operating performance. The emoluments of the Directors are determined by reference to the industry's remuneration level, the Company's operating performance and the respective responsibilities and performances of the Directors. Under the arrangement of the Company's ultimate controlling shareholder, certain Directors and core employees are holding A-shares Restricted Stock Incentive Plan (Phase II) of China State Construction Engineering Corporation Limited ("**CSCECL**"); to further incent the core talents, to actualize sound and fast development of the Company, the Company set up a "688 share option incentive plan" in the year. The information of the scheme is set out separately in note 32 to the financial statement of the Company and the Report of Directors.

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme (the "**MPF Scheme**") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. With effect from 1 January 2018, Employer Voluntary Contributions are made, under specific criteria set in the company policy, as a part of the employee benefits program. The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to these schemes is to make the required contributions under the scheme. During the year, the Group made contribution to these schemes amounting to approximately HK$123,917,000. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Report of Directors (continued)

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's long-term strategy includes a sustainable approach to the environment. The Group has not yet established an overarching Group environmental policy. Instead, the Group's approach is to actively integrate environmental considerations throughout the life-cycle of property development and investment by implementing various management systems and initiatives. These include, but are not limited to, technical manual on green building design, guidelines on construction process evaluation and energy management system for commercial properties.

To better understand the Group's carbon footprint, the Group has commissioned an external consultancy to quantify the greenhouse gases emissions from its operations through carbon assessment. To further mitigate our carbon emission, this year the Group launched an energy information platform in ten commercial projects. It monitors and analyses real-time energy consumption of facilities and equipments, which facilitates precise evaluation of our energy-saving performance and the development of further reduction initiatives.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's major business is property investment and development in PRC, which is heavily regulated. The laws and regulations relating to the Group's operations cover these aspects:

- Establishment of a real estate development enterprise
- Qualification of a real estate developer
- Land for property development
- Sale of commodity properties
- Transfer of real estate
- Mortgages of real estate
- Real estate management
- Measures on stabilizing property prices
- PRC taxation
- Foreign currency exchange
- Labour protection

During 2018, there was no reported incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business.

Report of Directors (continued)

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS *(continued)*

To ensure compliance with relevant environmental laws and regulations that have a significant impact on the Group, the Group does not only review and monitor its own operations that mainly consist of office work, but also emphasizes on managing its contractors' compliance. Highlights of the Group's compliance measures during the reporting period are outlined in the following table.

Primary laws/regulations	Concerning issues	Compliance measures
• Environmental Impact Assessment Law of the People's Republic of China • Administrative Regulations on Environmental Protection for Construction Projects	Construction work commencement permit	Environmental impact assessment was undertaken to ensure that all new projects of the Group undergo a comprehensive review before they are constructed.
• Environmental Protection Law of the People's Republic of China • Administrative Regulations on Environmental Protection for Construction Projects • Administrative Regulations on Environmental Protection for Acceptance Examination upon Completion of Buildings • Technical Guidelines of Environmental Protection Inspections for Completed Construction Projects — Pollution Impacts Category • Prevention and Control of Noise Pollution Law of the People's Republic of China • Water Pollution Prevention and Control Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste	Protection of the environment and preservation of antiquities and monuments	The Group has established a quality assessment system to regulate the construction work process. The Group has appointed a third-party supervision unit to provide construction supervision services for its property development projects in mainland China. The Group obtained environmental protection acceptance and inspection approvals for all projects.

There is a growing global awareness of sustainability issues and an increased focus on the supervision and regulation of the property investment and development industry. In addition, the Group is expected to meet public expectations in relation to environmental and social matters, which are sometimes more stringent than the requirements of the prevailing laws and regulations. The Group will take a more proactive response approach to ensure that the entire organization acts in a consistent and strong manner when it comes to compliance and social licence to operate.

Report of Directors (continued)

RELATIONSHIPS WITH THE KEY STAKEHOLDERS

Employees

The Group's employees are located across a number of cities and office locations in PRC. The Group's human resources management strategy focuses on two areas:

- Personal development

- Equal opportunity

The Group maintains and strengthens its core competencies through continuous investment in training and development and maintaining workforce diversity. The number of training hours in 2018 is 409,370 hours.

The property development sector is one of the most male dominated sectors. In terms of gender distribution, the ratio of male to female staff was approximately 2.4:1 (2017: 2.29:1). The Group will continue to monitor diversity indicators and work on encouraging female participation in the industry.

Customers

The Group builds its brand by offering customer-oriented products and services to customers. With a business focus on the 49 cities in mainland China, the Group develops various types of properties tailored for different customers targeting at the middle to high-end product ranges in different regions.

To better understand the customers, the Group has been conducting customer satisfaction surveys on a regular basis. An exclusive tenant club has been established, serving as a critical communication channel between the Group and its customers and a driving force of the Company's community volunteering work.

The Group will continue to broaden the range of property products, optimize the project development cycle, enhance the quality of the properties and perfect the customer services, in response to and even exceed the increasing expectations of the customers.

Suppliers

The Group's suppliers spread across mainland China. Most of them are engineering suppliers, offering key materials, equipments and services for the Group's property development projects. As a quality driven national brand, the Group works closely with its suppliers.

Through supplier screening, assessment, annual evaluation and other management systems and regular communication, the Group strives to ensure that suppliers share its belief in high quality and a corporate culture of integrity.

Contractors

The Group outsources the construction work of its property development projects to contractors. The Group maintains long-term cooperative relationships with contractors to ensure strong execution capabilities with standardized and scalable property development procedures.

The Group has placed and will continue to place significant emphasis on quality control, environmental protection, health and safety over its project development. Through implementing an integrated assessment, the Group works collectively with contractors on ensuring quality control, environmental protection as well as health and safety in property development projects.

Details of the above will be disclosed in the Group's Environmental, Social and Governance Report to be published by July 2019.

Report of Directors (continued)

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

DONATIONS

During the year, the Group made charitable and other donations amounted to approximately HK$469,600.

AUDIT AND RISK MANAGEMENT COMMITTEE

One of the principal duties of the Audit and Risk Management Committee is to review the Group's financial reporting requirements and system, and risk management and internal control systems. The members of the Audit and Risk Management Committee have been satisfied with the Company's financial reporting disclosures and system, and risk management and internal control procedures.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 94 to 107 of this annual report.

PERMITTED INDEMNITY PROVISION

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

Report of Directors (continued)

CHANGES IN DIRECTORS' INFORMATION

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

(i) The annual remuneration of Mr. Yan Jianguo, but excluding discretionary bonus, was adjusted to approximately HK$5,200,000 per annum, with effect from 1 February 2019.

(ii) The annual remuneration of Mr. Luo Liang, but excluding discretionary bonus, was adjusted to approximately RMB2,100,000 per annum, with effect from 1 February 2019.

(iii) The annual remuneration of Mr. Guo Guanghui, but excluding discretionary bonus, was adjusted to approximately RMB1,740,000 per annum, with effect from 1 February 2019.

(iv) Mr. Li Man Bun, Brian David was appointed as Director of the Financial Services Department Council and a member of the Hongkong-Japan Business Co-operation Committee. He ceased to be a member of the Market Development Committee of the Financial Services Development Council of the Government of the Hong Kong Special Administrative Region, and he has become a Fellow of the Hong Kong Chapter, the Institute of Chartered Accountants in England and Wales.

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

The updated biographical details of Directors and senior management are set out in the section headed "Directors and Organisation" in this annual report.

AUDITOR

PricewaterhouseCoopers ("**PwC**") has acted as auditor of the Company since year 2012.

A resolution will be proposed at the forthcoming annual general meeting to re-appoint PwC as auditor of the Company.

On behalf of the Board

Yan Jianguo
Chairman and Chief Executive Officer

Hong Kong, 20 March 2019

Independent Auditor's Report

羅兵咸永道

TO THE MEMBERS OF CHINA OVERSEAS LAND & INVESTMENT LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Overseas Land & Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 140 to 242, which comprise:

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

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report (continued)

KEY AUDIT MATTERS

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

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

- Valuation of investment properties; and
- Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to note 16 to the consolidated financial statements*	
The Group's investment properties amounted to HK$111,574 million as at 31 December 2018 and a fair value gain of HK$10,413 million was accounted for under "gain arising from changes in fair value of investment properties" in the consolidated income statement. Management engaged independent valuers to determine the valuation of the Group's investment properties. There are significant judgments and estimates involved in the valuation which mainly include: • Completed investment properties: The valuation was arrived at using investment approach by considering the capitalised income derived from the existing tenancies and the reversionary potential, including reversionary yields and prevailing market rents, of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. • Investment properties under construction: The valuation was arrived at using residual method by making reference to estimated selling prices as available in the relevant market. The estimated cost to complete the development and estimated developer's profit as at the date of valuation were also taken into account. The existence of significant judgments and estimates of the assumptions involved in the property valuations warrants specific audit focus and attention on this area.	Our procedures in relation to the valuation of investment properties included: • Assessing the competence, capability and independence of the valuers and discussing the scope of their work; • Assessing the methodologies used by the valuers and the appropriateness of the key assumptions based on our knowledge of the property industry, research evidence of reversionary yields, prevailing market rents, estimated selling prices with reference to comparable market transactions for similar properties and comparing the estimated developer's profit to historical records, focusing in particular on material properties where the growth in capital values was significantly higher or lower than our expectations based on available market information; and • Testing, on a sample basis, the data used in the valuation of properties, including rental rates from existing tenancies and estimated cost to complete, by agreeing them to the underlying agreements with the tenants and contractors respectively. Based on the audit procedures performed, we found the methodologies used in preparing the valuations were appropriate and the key assumptions were supportable in light of available and comparable evidence.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
As at 31 December 2018, the total carrying values of the Group's stock of properties and net investments in unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects were HK$423,194 million. Management assesses the recoverability of property portfolio held by the Group's subsidiaries and the Group's net investments in unlisted associates and joint ventures, based on estimates of the net realisable values of the underlying stock of properties, either held by the Group's subsidiaries, unlisted associates or joint ventures. This involves estimation of, inter-alia, construction costs to be incurred to complete the properties under development based on existing plans and a forecast of future sales based on current market price of properties of comparable locations and conditions. Management concluded that no significant provision for impairment is necessary for the Group's stock of properties and net investments in unlisted associates and joint ventures. If the estimated net realisable values of the underlying stock of properties are significantly different from their carrying values as a result of changes in market conditions and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result. Accordingly, the existence of significant estimation uncertainty warrants specific audit focus and attention on this area.	Our procedures in relation to management's recoverability assessment included: **For the stock of properties held by the Group** • Testing the design and operating effectiveness of key internal controls around the property development cycle with particular focus on controls over cost budgeting and periodic review, sources of impairment assessment data and calculation of impairment provisions; • Understanding management's assessment, with reference to the appropriate supporting evidence, on the impairment of stock of properties which had relatively lower gross profit margins, within the general property development and sales cycle; and • For stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by management. For the forecast of future sales, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to supporting documentations, e.g. construction contracts and other documentations.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of property portfolio held by the Group and its unlisted associates and joint ventures *Refer to notes 4(b) and 4(c) to the consolidated financial statements*	
	For the stock of properties held by the Group's significant unlisted associates and joint ventures • With reference to the appropriate supporting evidence, understanding the impairment assessment of net investments in unlisted associates and joint ventures performed by the Group's management, with their principal focus on underlying stock of properties held by the unlisted associates and joint ventures which had relatively lower gross profit margins; and • For companies with underlying stock of properties which had relatively lower gross profit margins, assessing the reasonableness of key assumptions adopted by the Group's assessment on the expected cash flow and recoverable amount of the net investments in unlisted associates and joint ventures. For the forecast of future sales, we checked, on a sample basis, recent market transaction prices of properties with comparable locations and conditions, where applicable. For construction costs to be incurred for properties under development, we assessed the reasonableness of the latest budgets of total construction costs to supporting documentations, or when necessary, based on our knowledge of the property industry and research evidence. We found the key assumptions in the recoverability assessment were supportable in light of available and comparable internal and other market evidence.

OTHER INFORMATION

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

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

Independent Auditor's Report (continued)

OTHER INFORMATION *(continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	7	**171,461,059**	166,044,963
Business tax		**(1,802,162)**	(2,072,793)
Net revenue	7	**169,658,897**	163,972,170
Direct operating costs, exclude business tax above		**(104,855,413)**	(109,272,364)
		64,803,484	54,699,806
Other income and gains, net	9	**1,081,055**	5,353,577
Gain arising from changes in fair value of investment properties	16	**10,412,570**	5,946,121
Gain on disposal of investment properties		**23,265**	40,782
Gain on disposal of subsidiaries	37	**–**	165,865
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	38	**–**	2,140,171
Gain on acquisition of subsidiaries	38	**–**	326,267
Selling and distribution costs		**(2,621,750)**	(2,949,521)
Administrative expenses		**(2,966,589)**	(2,848,693)
Operating profit		**70,732,035**	62,874,375
Share of profits of			
Associates		**2,207,624**	1,164,116
Joint ventures		**1,214,358**	774,352
Finance costs	10	**(1,585,609)**	(1,393,544)
Profit before tax		**72,568,408**	63,419,299
Income tax expenses	11	**(25,866,438)**	(21,277,184)
Profit for the year	12	**46,701,970**	42,142,115
Attributable to:			
Owners of the Company		**44,900,303**	40,766,835
Non-controlling interests		**1,801,667**	1,375,280
		46,701,970	42,142,115
		HK$	*HK$*
EARNINGS PER SHARE	14		
Basic and diluted		**4.10**	3.72

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**46,701,970**	42,142,115
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Exchange differences on translation of the Company and its subsidiaries	**(12,407,154)**	9,892,806
Exchange differences on translation of associates and joint ventures	**(882,283)**	967,762
Changes in fair value of investments in syndicated property project companies	**(17,755)**	–
	(13,307,192)	10,860,568
Item that may be reclassified to profit or loss		
Exchange differences on translation of associates	**(571,435)**	780,201
Other comprehensive income for the year	**(13,878,627)**	11,640,769
Total comprehensive income for the year	**32,823,343**	53,782,884
Total comprehensive income attributable to:		
Owners of the Company	**31,670,385**	51,875,215
Non-controlling interests	**1,152,958**	1,907,669
	32,823,343	53,782,884

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current Assets			
Investment properties	16	**111,574,402**	97,377,389
Property, plant and equipment	17	**3,666,270**	3,897,596
Prepaid lease payments for land	18	**531,615**	575,810
Interests in associates	19	**13,049,023**	8,232,345
Interests in joint ventures	20	**13,633,847**	12,405,070
Investments in syndicated property project companies		**–**	24,212
Available-for-sale investments		**–**	115,842
Amounts due from associates	21	**4,930,272**	8,969,792
Amounts due from joint ventures	21	**4,581,650**	6,592,674
Other receivables		**388,066**	456,540
Goodwill	36	**64,525**	64,525
Deferred tax assets	35	**5,888,836**	4,902,484
		158,308,506	143,614,279
Current Assets			
Inventories	22	**103,400**	82,852
Stock of properties	23	**382,808,752**	335,541,563
Land development expenditure	24	**28,715,739**	24,305,938
Prepaid lease payments for land	18	**15,389**	16,396
Trade and other receivables	25	**11,124,808**	14,300,567
Contract assets	2(c)	**1,491,080**	–
Deposits and prepayments		**9,498,236**	7,240,012
Deposits for land use rights for property development		**10,362,832**	2,386,145
Amounts due from fellow subsidiaries	26	**375,544**	356,221
Amounts due from associates	26	**7,746,515**	5,508,696
Amounts due from joint ventures	26	**7,414,115**	2,985,523
Amounts due from non-controlling shareholders	26	**1,384,113**	728,934
Amounts due from CITIC Group	27	**–**	197,949
Tax prepaid		**5,436,273**	4,089,095
Bank balances and cash	28	**100,555,356**	104,050,615
		567,032,152	501,790,506

Consolidated Statement of Financial Position (continued)

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Current Liabilities			
Trade and other payables	29	**60,005,843**	51,826,299
Pre-sales deposits		**–**	77,857,359
Contract liabilities	2(d)	**92,984,048**	–
Rental and other deposits		**3,434,417**	3,428,838
Amounts due to fellow subsidiaries	30	**977,998**	756,994
Amounts due to associates	30	**1,867,490**	2,028,855
Amounts due to joint ventures	30	**8,959,739**	5,425,631
Amounts due to non-controlling shareholders	31	**15,121,521**	5,053,174
Tax liabilities		**34,880,729**	29,741,619
Bank and other borrowings – due within one year	33	**14,627,002**	13,324,575
Notes payable – due within one year	34	**16,277,376**	17,099,222
		249,136,163	206,542,566
Net Current Assets		**317,895,989**	295,247,940
Total Assets Less Current Liabilities		**476,204,495**	438,862,219
Capital and Reserves			
Share capital	32	**90,420,438**	90,420,438
Reserves		**193,060,632**	175,273,849
Equity attributable to owners of the Company		**283,481,070**	265,694,287
Non-controlling interests		**10,125,172**	7,849,143
Total Equity		**293,606,242**	273,543,430
Non-current Liabilities			
Bank and other borrowings – due after one year	33	**100,504,152**	90,256,116
Notes payable – due after one year	34	**64,540,446**	57,558,524
Amounts due to non-controlling shareholders	31	**2,013,003**	3,799,801
Deferred tax liabilities	35	**15,540,652**	13,704,348
		182,598,253	165,318,789
		476,204,495	438,862,219

The financial statements on pages 140 to 242 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital *HK$'000*	Other property revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Merger and other reserves *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	90,420,438	301,449	25,799	(13,484,719)	(14,105,752)	7,597,154	151,494,073	222,248,442	5,174,917	227,423,359
Profit for the year	–	–	–	–	–	–	40,766,835	40,766,835	1,375,280	42,142,115
Exchange differences on translation of the Company and its subsidiaries	–	–	–	9,360,417	–	–	–	9,360,417	532,389	9,892,806
Exchange differences on translation of associates and joint ventures	–	–	–	1,747,963	–	–	–	1,747,963	–	1,747,963
Total comprehensive income for the year	–	–	–	11,108,380	–	–	40,766,835	51,875,215	1,907,669	53,782,884
2016 final dividend paid	–	–	–	–	–	–	(4,601,605)	(4,601,605)	–	(4,601,605)
2017 interim dividend paid	–	–	–	–	–	–	(3,834,671)	(3,834,671)	–	(3,834,671)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(38,386)	(38,386)
Disposal of subsidiaries	–	–	–	(554)	–	–	554	–	(2,069)	(2,069)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(775,619)	(775,619)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(760,139)	(760,139)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,342,770	2,342,770
Release of exchange reserve of a joint venture upon acquisition	–	–	–	(171,955)	–	–	171,955	–	–	–
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	6,906	–	–	6,906	–	6,906
Transfer to PRC statutory reserve	–	–	–	–	–	2,166,296	(2,166,296)	–	–	–
At 31 December 2017	90,420,438	301,449	25,799	(2,548,848)	(14,098,846)	9,763,450	181,830,845	265,694,287	7,849,143	273,543,430

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Other property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Merger and other reserves HK$'000	PRC statutory reserve HK$'000 (Note)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	90,420,438	301,449	25,799	(2,548,848)	(14,098,846)	9,763,450	181,830,845	265,694,287	7,849,143	273,543,430
Adjustments on adoption of HKFRS 15, net of tax *(Note 2(a))*	–	–	–	(176,433)	–	–	(4,526,697)	(4,703,130)	(152,814)	(4,855,944)
Restated balance at 1 January 2018	90,420,438	301,449	25,799	(2,725,281)	(14,098,846)	9,763,450	177,304,148	260,991,157	7,696,329	268,687,486
Profit for the year	–	–	–	–	–	–	44,900,303	44,900,303	1,801,667	46,701,970
Exchange differences on translation of the Company and its subsidiaries	–	–	–	(11,758,445)	–	–	–	(11,758,445)	(648,709)	(12,407,154)
Exchange differences on translation of associates and joint ventures	–	–	–	(1,453,718)	–	–	–	(1,453,718)	–	(1,453,718)
Changes in fair value of investments in syndicated property project companies	–	–	(17,755)	–	–	–	–	(17,755)	–	(17,755)
Total comprehensive income for the year	–	–	(17,755)	(13,212,163)	–	–	44,900,303	31,670,385	1,152,958	32,823,343
2017 final dividend paid	–	–	–	–	–	–	(4,930,291)	(4,930,291)	–	(4,930,291)
2018 interim dividend paid	–	–	–	–	–	–	(4,382,481)	(4,382,481)	–	(4,382,481)
Return of capital to non-controlling shareholders	–	–	–	–	–	–	–	–	(129,518)	(129,518)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,453,491	2,453,491
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(1,048,088)	(1,048,088)
Equity settled share-based transactions *(Note 32)*	–	–	–	–	125,307	–	–	125,307	–	125,307
Capital contribution relating to share-based payments borne by an intermediate holding company	–	–	–	–	6,993	–	–	6,993	–	6,993
Disposal of investments in syndicated property project companies	–	–	(8,044)	–	–	–	8,044	–	–	–
Transfer to PRC statutory reserve	–	–	–	–	–	1,393,628	(1,393,628)	–	–	–
At 31 December 2018	90,420,438	301,449	–	(15,937,444)	(13,966,546)	11,157,078	211,506,095	283,481,070	10,125,172	293,606,242

Note: PRC statutory reserve of the Group represents general and development fund reserve applicable to subsidiaries which was established in accordance with the relevant People's Republic of China ("PRC") regulations.

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**72,568,408**	63,419,299
Adjustments for:		
Share of profits of associates	**(2,207,624)**	(1,164,116)
Share of profits of joint ventures	**(1,214,358)**	(774,352)
Finance costs	**1,585,609**	1,393,544
Depreciation and amortisation	**217,779**	208,458
Interest income	**(1,802,390)**	(1,536,755)
Gain arising from changes in fair value of investment properties	**(10,412,570)**	(5,946,121)
Gain on disposal of investment properties	**(23,265)**	(40,782)
Gain on disposal of subsidiaries	**–**	(165,865)
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	**–**	(2,140,171)
Gain on acquisition of subsidiaries	**–**	(326,267)
Gain on disposal of property, plant and equipment	**(21,625)**	(9,953)
Equity settled share-based payment expenses	**132,300**	6,906
Gain on disposal of available-for-sale investments	**–**	(8,304)
Gain on disposal of joint ventures	**(2,078)**	(57,088)
Effect of foreign exchange rate changes	**1,718,138**	(2,463,069)
Operating cash flows before movements in working capital	**60,538,324**	50,395,364
(Increase)/decrease in inventories	**(24,719)**	3,262
Increase in stock of properties	**(39,452,464)**	(67,437,830)
Increase in land development expenditure	**(5,861,461)**	(39,301)
Increase in trade and other receivables, deposits and prepayments	**(4,043,871)**	(2,697,651)
Increase in contract assets	**(874,141)**	–
Increase in deposits for land use rights for property development	**(10,076,791)**	(1,783,735)
Increase in restricted bank deposits	**(90,560)**	(2,246,868)
Increase/(decrease) in trade and other payables, contract liabilities, pre-sales deposits, and rental and other deposits	**7,367,348**	(5,613,796)
Cash generated from/(used in) operations	**7,481,665**	(29,420,555)
Income taxes paid	**(15,672,552)**	(12,616,856)
NET CASH USED IN OPERATING ACTIVITIES	**(8,190,887)**	(42,037,411)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Interest received		**1,562,956**	1,464,270
Dividends received from associates		**725,912**	399,758
Dividends received from joint ventures		**83,144**	508,658
Purchase of property, plant and equipment		**(136,449)**	(63,132)
Additions of investment properties		**(4,818,643)**	(4,567,669)
Increase in amounts due from fellow subsidiaries		**(38,761)**	(76,938)
Repayment from CITIC Group		**195,592**	404,156
Advances to associates		**(5,358,789)**	(6,651,429)
Repayment from associates		**6,932,782**	7,467,646
Acquisition of subsidiaries	38	**–**	(3,007,959)
Advances to joint ventures		**(4,260,969)**	(5,855,752)
Repayment from joint ventures		**1,925,582**	3,170,905
Advances to non-controlling shareholders		**(719,880)**	–
Repayment from non-controlling shareholders		**–**	352,674
Capital contributions to associates		**(3,913,814)**	(1,032,479)
Capital distributions from an associate		**159,364**	–
Capital contributions to joint ventures		**(964,845)**	(932,502)
Capital distributions from joint ventures		**–**	150,602
Net proceeds on disposal of available for sale-investments		**–**	49,363
Net proceeds on disposal of property, plant and equipment		**68,654**	41,867
Net proceeds on disposal of investment properties		**164,265**	199,459
Net cash outflow on disposal of subsidiaries	37	**–**	(161,992)
Net proceeds on disposal of associates and joint ventures		**115,731**	61,044
NET CASH USED IN INVESTING ACTIVITIES		**(8,278,168)**	(8,079,450)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES			
Interest paid		**(8,702,291)**	(7,371,657)
Other finance costs paid		**(223,949)**	(221,183)
Dividends paid to owners of the Company		**(9,312,772)**	(8,436,276)
Dividends paid to non-controlling shareholders		**(1,057,255)**	(717,289)
New bank and other borrowings raised		**27,557,261**	50,199,681
Repayment of bank and other borrowings		**(12,181,528)**	(48,897,982)
Issue of notes		**19,137,071**	–
Redemption of notes		**(11,406,723)**	(5,815,625)
Advances from a fellow subsidiary		**221,004**	108,225
Repayment to fellow subsidiaries		**–**	(29,527)
Contributions from non-controlling shareholders		**2,453,491**	2,342,770
Return of capital to non-controlling shareholders		**(129,518)**	(760,139)
Acquisition of additional interests in subsidiaries		**–**	(64,200)
Advances from associates		**668,593**	529,758
Repayment to associates		**(1,127,525)**	(25,581)
Advances from joint ventures		**4,281,720**	3,179,097
Repayment to joint ventures		**(474,468)**	(75,355)
Advances from non-controlling shareholders		**8,306,646**	3,485,529
Repayment to non-controlling shareholders		**(775,108)**	(570,885)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**17,234,649**	(13,140,639)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**765,594**	(63,257,500)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**99,460,057**	154,983,386
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(4,120,309)**	7,734,171
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**96,105,342**	99,460,057
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**100,555,356**	104,050,615
Less: restricted bank deposits	28	**(4,450,014)**	(4,590,558)
		96,105,342	99,460,057

The notes on pages 149 to 242 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company's immediate parent company is China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong, and its ultimate holding company is China State Construction Engineering Corporation ("CSCEC"), an entity established in the PRC and the PRC government is a substantial shareholder of CSCEC. The registered office and principal place of business of the Company are situated at 10/F, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Group's business activities are principally carried out in Hong Kong, Macau, Guangzhou, Shanghai, Beijing, Tianjin, Jinan, Foshan, Chengdu, Nanjing, Suzhou and other regions in the PRC.

The Company's functional currency is Renminbi ("RMB"). The financial statements are presented in Hong Kong dollars ("HK$") as the directors of the Company consider that HK$ is the appropriate presentation currency for the users of the Group's financial statements.

The Group, comprising the Company and its subsidiaries, is principally engaged in property development and investment, and treasury operations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards or amendments to HKFRSs issued by the HKICPA which are relevant to the Group:

Amendments to Hong Kong Accounting Standard ("HKAS") 40	*Transfers of Investment Property*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*

Except for the adoption of HKFRS 15, the application of the above new and revised standards or amendments has had no material impact on the Group's results and financial position.

HKFRS 9, *Financial Instruments*

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group adopted HKFRS 9 with effective from 1 January 2018, which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 9, *Financial Instruments* *(continued)*

The equity investments held by the Group, including available-for-sale investments and investments in syndicated property project companies previously classified as available-for-sale financial assets under HKAS 39, were reclassified as financial assets at fair value through other comprehensive income ("FVOCI") under HKFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. At 1 January 2018 and 31 December 2018, the Group assessed the impact of loss allowance under the application of HKFRS 9 was immaterial. Except for the above, the application of HKFRS 9 did not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 1 January 2018 and 31 December 2018.

The application of HKFRS 9 did not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group did not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. Since the Group did not have any hedge relationships currently, the application of HKFRS 9 did not have any impact on the Group's financial statements.

HKFRS 15, *Revenue from Contracts with Customers*

During the current year, the Group adopted HKFRS 15 as issued by the HKICPA. The adoption of HKFRS 15 resulted in changes in accounting policies and adjustments to the amounts of revenue recognised in the consolidated financial statements. HKFRS 15 replaces the provisions of HKAS 18, *Revenue* and HKAS 11, *Construction Contracts* that relate to the recognition, classification and measurement of revenues and costs.

The Group elected to use a modified retrospective approach for transition in the consolidated financial statements for the year ended 31 December 2018, which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018, while prior year comparative figures were not restated. The Group chose to apply HKFRS 15 for its contracts at 1 January 2018.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

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

Accounting for property development activities
In prior reporting periods, the Group recognised revenue from sale of properties when significant risks and rewards of ownership of properties had been transferred to customers at a single time and not continuously as construction progresses.

Under HKFRS 15, the Group determines whether the properties have alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date.

- For properties which have no alternative use to the Group and the Group has no enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied at a point in time when the customer obtains control of the property and the Group satisfies the performance obligations.

  The timing of revenue recognition for sale of certain stock of properties, which was based on whether significant risks and rewards of ownership of properties had been transferred in the past, is now recognised at a point in time when the underlying property is legally or physically transferred to the customer.

- For properties which have no alternative use to the Group and the Group has enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

  The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Accounting for costs incurred for obtaining a contract
Following the adoption of HKFRS 15, costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised and recorded in contract assets. These expenses were charged to profit or loss as incurred before the adoption of HKFRS 15.

Accounting for significant financing component
For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

Presentation of contract assets and contract liabilities

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

- Contract assets in relation to amounts due from customers for contract work under the Group's construction activities were previously presented within trade and other receivables.

- Contract liabilities for progress billings recognised in relation to property development activities were previously presented as pre-sales deposits.

(a) **The effects of the adoption of HKFRS 15 on the consolidated statement of financial position at 1 January 2018 are as follows:**

	At 1 January 2018			
	As previously stated *HK$'000*	Reclassification under HKFRS 15 *HK$'000*	Adjustments under HKFRS 15 *HK$'000*	Restated *HK$'000*
Consolidated statement of financial position (extract)				
Interests in associates	8,232,345	–	201,789	8,434,134
Deferred tax assets	4,902,484	–	(326,353)	4,576,131
Stock of properties	335,541,563	–	16,657,747	352,199,310
Trade and other receivables	14,300,567	(487,295)	(3,834,750)	9,978,522
Deposits and prepayments	7,240,012	–	29,139	7,269,151
Contract assets	–	487,295	146,373	633,668
Tax prepaid	4,089,095	–	247,069	4,336,164
Trade and other payables	51,826,299	–	(1,906,236)	49,920,063
Pre-sales deposits	77,857,359	(73,089,843)	(4,767,516)	–
Contract liabilities	–	73,089,843	28,546,858	101,636,701
Tax liabilities	29,741,619	–	(4,578,842)	25,162,777
Deferred tax liabilities	13,704,348	–	682,695	14,387,043
Translation reserve	(2,548,848)	–	(176,433)	(2,725,281)
Retained profits	181,830,845	–	(4,526,697)	177,304,148
Non-controlling interests	7,849,143	–	(152,814)	7,696,329

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	For the year ended 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated income statement (extract)			
Revenue	166,600,010	4,861,049	171,461,059
Business Tax	(1,658,186)	(143,976)	(1,802,162)
Direct operating costs, excluding business tax above	(101,722,349)	(3,133,064)	(104,855,413)
Selling and distribution costs	(2,813,761)	192,011	(2,621,750)
Share of profits of associates	2,079,571	128,053	2,207,624
Share of profits of joint ventures	1,234,879	(20,521)	1,214,358
Income tax expenses	(25,458,275)	(408,163)	(25,866,438)
Profit for the year attributable to:			
– Owners of the Company	43,551,162	1,349,141	44,900,303
– Non-controlling interests	1,675,420	126,247	1,801,667
	HK$	*HK$*	*HK$*
Earnings per share			
Basic and diluted	3.98	0.12	4.10

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows: *(continued)*

	At 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated statement of financial position (extract)			
Interests in associates	12,724,664	324,359	13,049,023
Interests in joint ventures	13,653,570	(19,723)	13,633,847
Deferred tax assets	6,088,603	(199,767)	5,888,836
Stock of properties	369,483,023	13,325,729	382,808,752
Trade and other receivables	15,455,974	(4,331,166)	11,124,808
Deposits and prepayments	9,423,838	74,398	9,498,236
Contract assets	–	1,491,080	1,491,080
Trade and other payables	61,393,927	(1,388,084)	60,005,843
Pre-sales deposits	74,336,052	(74,336,052)	–
Contract liabilities	–	92,984,048	92,984,048
Tax liabilities	38,987,845	(4,107,116)	34,880,729
Deferred tax liabilities	14,725,202	815,450	15,540,652
Translation reserve	(15,840,696)	(96,748)	(15,937,444)
PRC statutory reserve	11,114,366	42,712	11,157,078
Retained profits	214,726,363	(3,220,268)	211,506,095
Non-controlling interests	10,154,202	(29,030)	10,125,172

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(b) The amount by each financial statements line items affected in the current year and year to date by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows: *(continued)*

	For the year ended 31 December 2018		
	Amounts before the adoption of HKFRS 15 *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Amounts as reported *HK$'000*
Consolidated statement of cash flows (extract)			
OPERATING ACTIVITIES			
Profit before tax	70,684,856	1,883,552	72,568,408
Adjustments for:			
Share of profits of associates	(2,079,571)	(128,053)	(2,207,624)
Share of profits of joint ventures	(1,234,879)	20,521	(1,214,358)
Changes in working capital:			
Stock of properties	(42,040,586)	2,588,122	(39,452,464)
Trade and other receivables, deposits and prepayments	(4,021,116)	(22,755)	(4,043,871)
Contract assets	–	(874,141)	(874,141)
Trade and other payables, contract liabilities, pre-sales deposits, and rental and other deposits	10,834,594	(3,467,246)	7,367,348

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(c) Details of contract assets are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract assets related to sales of properties *(Note i)*	**1,309,819**	146,373
Costs for obtaining contracts *(Note ii)*	**181,261**	–
Contract assets related to construction services *(Note i)*	**–**	487,295
Total contract assets	**1,491,080**	633,668

Notes:

(i) Contract assets consist of unbilled amount resulting from sales of properties and construction services when revenue recognised exceeds the amount billed to the customer. Increase in contract assets during the year was in line with the growth of the Group's contracted sales.

(ii) Management expects the incremental costs, primarily sales commission and stamp duty, as a result of obtaining the pre-sale property contracts are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised. For the year ended 31 December 2018, the amount of amortisation was insignificant and there was no impairment loss in relation to the costs capitalised.

(d) Details of contract liabilities are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract liabilities related to sales of properties	**92,984,048**	101,636,701

The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are mainly from sales of properties.

The following table shows the amount of the revenue recognised in the current reporting period in relation to carried-forward contract liabilities:

	2018 HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**81,179,558**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, *Revenue from Contracts with Customers* *(continued)*

(e) Transaction price allocated to the unsatisfied contracts related to sales of properties are as follow:

	2018 *HK$'000*
Expected to be recognised within one year	82,668,117
Expected to be recognised after one year	33,691,079
Total transaction price allocated to the unsatisfied contracts at 31 December 2018	116,359,196

The Group has not early adopted the following new and revised standards or amendments that have been issued but are not yet effective:

HKFRS 16	*Leases*[1]
Annual Improvement Project	*Annual Improvements 2015–2017 Cycle*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Comparison*[1]
Amendments to HKAS 19	*Employee Benefits*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK (IFRIC) – Int 23	*Uncertainty over Income Tax*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Conceptual Framework for Financial Reporting 2018[2]	
Amendments to HKFRS 3	*Definition of Business*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *The mandatory effective date will be determined*

HKFRS 16, *Leases*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, *Leases* *(continued)*

Impact

The standard will affect primarily the accounting for the Group's operating leases. At the end of the reporting period, the Group has non-cancellable operating lease commitments of HK$79,704,000 as disclosed in Note 39. The Group estimates that the leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

The Group does not expect any significant impact on the financial statements as a lessor. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for leases will be measured on transition as if the new rules had always been applied.

Except for the above, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the company's annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10, *Consolidated Financial Statements* so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such companies as subsidiaries but they are accounted for in accordance with the accounting policies in Note 3. Those excluded subsidiary undertakings of the Group are disclosed in Note 20.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests and the fair value of the consideration paid or received is recognised directly in retained profits and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interests.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous year end date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – acquisition method

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

1. deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12, *Income Taxes* and HKAS 19, *Employee Benefits* respectively;

2. liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2, *Share-based Payment* at the acquisition date (see the accounting policy below); and

3. assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Basis of Consolidation *(continued)*

Business combinations – acquisition method (continued)

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, *Financial Instruments*, or HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Separate Financial Statements

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. Cost includes direct attributable costs of investments.

The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36, *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence or joint control over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture.

If an interest in an associate becomes an interest in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Interests in Associates and Joint Ventures *(continued)*

When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group. When the Group disposes a business to its associate or joint venture, the entire gain or loss on disposal is recognised in profit or loss as a loss of control of a business.

Accounting policies of associates and joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management, who is responsible for resource allocation and assessment of performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

For a transfer from stock of properties to investment properties (which is evidenced by commencement of operating leases) that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Property, Plant and Equipment

Property, plant and equipment including land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Property, Plant and Equipment *(continued)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold Land and Building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Impairment Losses on Tangible and Intangible Assets other than Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Impairment Losses on Tangible and Intangible Assets other than Goodwill *(continued)*
Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial Instruments
Financial Assets
Accounting policies applied since 1 January 2018
Classification
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

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

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

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

Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied since 1 January 2018 *(continued)*
Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost, which include trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures and non-controlling shareholders and bank balances. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

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

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied since 1 January 2018 *(continued)*
Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

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

Impairment
From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on financial assets measured at amortised cost other than trade receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

When there is a significant increase in credit risk or the proceeds receivables are not settled in accordance with the terms stipulated in the agreements, management considers these receivables as underperforming or non-performing and impairment is measured as lifetime expected credit loss.

When management considers that there is no reasonable expectation of recovery, the financial assets measured at amortised cost will be written off.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied until 31 December 2017
The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, fellow subsidiaries, associates, joint ventures and non-controlling shareholders and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVPL, loans and receivables or held-to-maturity investments. Available-for-sale financial assets, comprising investments in syndicated property project companies and available-for-sale investments, are carried at fair value and at cost at the end of the reporting period respectively. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss.

Recognition and measurement
Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Instruments *(continued)*
Financial Assets (continued)
Accounting policies applied until 31 December 2017 *(continued)*
Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

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

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables and deteriorated value in collateral assets.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Financial Liabilities and Equity Instruments
Financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, amounts due to associates, joint ventures, non-controlling shareholders, subsidiaries and fellow subsidiaries, bank and other borrowings and notes payable) are measured at amortised cost, using the effective interest method.

Effective Interest Method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form as integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition
The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial Guarantee Contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group or the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group or the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with the expected credit loss model under HKFRS 9, *Financial Instruments*; and (ii) the amount initially recognised less, when appropriate, cumulative amount of income recognised in accordance with the revenue recognition policy in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Inventories

Inventories, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Stock of Properties

Completed properties and properties under development are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other directly attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade Payables

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

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

Borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Foreign Currencies *(continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Group as Lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Employee Benefits

(i) *Retirement Benefits*

The Group participates in mandatory provident fund schemes in Hong Kong which are defined contribution plan generally funded through payments to trustee-administered funds. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in mainland China, the subsidiaries in mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

(ii) *Employee Leave Entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iii) *Share-based Payments*

Incentive Shares Granted by Group's Holding Entities

Incentive shares granted by an intermediate holding company to the employees of the Group are treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

Share Options Granted by the Group

The Group operates a share option scheme, under which the Group receives services from employees as consideration for share options of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

– including any market performance conditions (e.g. the entity's share price);

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

– including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Employee Benefits *(continued)*

(iii) Share-based Payments (continued)

Share Options Granted by the Group *(continued)*

Non-market performance and service conditions are included in assumptions about the number of share options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The grant by the Company of equity instruments over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Taxation *(continued)*
Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Property Development
Accounting policies applied since 1 January 2018
The Group determines whether the properties have alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from the customer for performance completed to date.

- For properties which have no alternative use to the Group and the Group has no enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied at a point in time when the customer obtains control of the property and the Group satisfies the performance obligations.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Revenue Recognition *(continued)*
Property Development (continued)
Accounting policies applied since 1 January 2018 *(continued)*

- For properties which have no alternative use to the Group and the Group has enforceable right to payment from the customer for performance completed to date, the Group recognises revenue as the performance obligations are satisfied over time in accordance with the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in contract liabilities in the consolidated statement of financial position under current liabilities.

Account policies applied until 31 December 2017
Revenue from property development in the ordinary course of business are recognised when all the following criteria are satisfied:

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

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

– the amount of revenue can be measured reliably;

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

– the cost incurred or to be incurred in respect of the transaction can be measured reliably; and

– Deposits and instalments received from purchasers prior to meeting the revenue recognition criteria are included in pre-sales deposits in the consolidated statement of financial position under current liabilities.

Accounting for costs incurred for obtaining a contract
Following the adoption of HKFRS 15, costs such as stamp duty and sales commission incurred directly attributable for obtaining a pre-sale property contract, if recoverable, are capitalised and recorded in contract assets. These expenses were charged to profit or loss as incurred before the adoption of HKFRS 15.

Accounting for significant financing component
For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Significant Accounting Policies *(continued)*

Revenue Recognition *(continued)*

Construction Contract Income

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

Hotel Operation, Real Estate Management Services and Building Design Consultancy Services

Revenue from hotel operation, the provision of real estate management services and building design consultancy services is recognised when services are provided.

Property Rentals

Rental income from properties under operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Dividend Income

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest Income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Provisions

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

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

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

Dividend Distribution

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

For distribution of non-cash assets as a dividend to the Company's shareholders, the Group measures the dividend payable at the fair value of the assets being distributed. When the Group settles the dividend payable, the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

(a) Fair Value of Investment Properties

Investment properties are carried at 31 December 2018 at their fair values of HK$111,574,402,000 (2017: HK$97,377,389,000). The fair values were based on a valuation on these properties conducted by independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss recognised in profit or loss.

(b) Impairment of Property Portfolio Held by the Group's Associates and Joint Ventures

Management assessed the recoverability of the Group's net investments in a listed associate, unlisted associates and joint ventures (representing interests in and amounts due from these companies) undertaking property development projects in the PRC with carrying amounts of HK$8,026,683,000 (2017: HK$10,268,329,000), HK$17,078,934,000 (2017: HK$11,617,794,000) and HK$23,306,669,000 (2017: HK$21,289,637,000) respectively included in the consolidated statement of financial position at 31 December 2018.

The assessment on unlisted associates and joint ventures was based on an estimation of the net realisable value of the underlying properties of the associates and joint ventures which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

The recoverable amount of the investment in the listed associate is evaluated based on the performance and financial position of the associate, and return on investments including the listed associate's share price performance and dividend yield.

Judgement is required in assessing the ultimate recoverability of the investment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) Impairment of Stock of Properties

Included in the consolidated statement of financial position at 31 December 2018 is stock of properties with an aggregate carrying amount of HK$382,808,752,000 (2017: HK$335,541,563,000). Management assessed the recoverability of the amount based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and a forecast of future sales based on zero growth rate of property price. If the actual net realisable values of the underlying stock of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development costs, material reversal of or provision for impairment losses may result.

(d) Land Appreciation Tax ("LAT")

LAT is levied on the appreciation of land value, being the proceeds from the sales of properties less deductible expenditure including land costs, borrowing costs and all property development expenditure.

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

(e) Revenue Recognition

Revenue from property development activities is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point in time. The properties contracted for pre-sale to customers have generally no alternative use for the Group due to contractual restrictions. However, whether there is an enforceable right to payment and hence the related contract revenue should be recognised over time depends on the terms of each contract and the relevant laws that apply to that contract. Judgement is required in such determination.

For property development revenue that is recognised over time, the Group recognises such property development revenue by reference to the progress of satisfying the performance obligation at the reporting date. This is measured based on the Group's costs incurred up to the reporting date and budgeted costs which depict the Group's performance towards satisfying the performance obligation. Judgements are required in the determination in these estimates, such as the accuracy of the budgets, the extent of the costs incurred and the allocation of costs to each property unit.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which mainly includes bank and other borrowings and notes payable disclosed in Notes 33 and 34 respectively, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company assess budgets of major projects taking into account of the provision of funding. Based on the operating budgets, the directors of the Company consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group actively reviews and monitors its capital structure on a regular basis to maintain a healthy net gearing ratio. For this purpose the Group defines net debt as total debt less bank balances and cash. Equity attributable to owners of the Company comprise share capital and reserves attributable to the Company's owners as shown in the consolidated statement of financial position.

The net gearing ratio at the end of the reporting period were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Bank and other borrowings	**115,131,154**	103,580,691
Notes payable	**80,817,822**	74,657,746
Total debt	**195,948,976**	178,238,437
Less: Bank balances and cash	**(100,555,356)**	(104,050,615)
Net debt	**95,393,620**	74,187,822
Equity attributable to owners of the Company	**283,481,070**	265,694,287
Net gearing ratio	**33.7%**	27.9%

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS

Details of significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3.

a. Categories of Financial Instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables at amortised cost (including bank balances and cash)	**138,500,439**	144,147,511
Available-for-sale financial assets (including investments in syndicated property project companies and available-for-sale investments)	**–**	140,054
Financial liabilities		
Liabilities at amortised cost	**284,894,570**	247,129,191

b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include bank and other borrowings, notes payable, trade and other receivables, trade and other payables, amounts due from/to affiliated companies and bank balances. Details of the financial instruments are disclosed in respective notes.

Management monitors and manages the financial risks relating to the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and currency risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's exposure to these kinds of risks or the manner in which it manages and measures these risks.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and changes in foreign exchange rates.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) Market risk *(continued)*

Interest rate risk

The Group's cash flow interest rate risk relates primarily to its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures amounting to HK$95,895,616,000 (2017: HK$86,296,354,000), HK$3,452,992,000 (2017: HK$2,112,253,000) and HK$7,231,150,000 (2017: HK$12,538,221,000), respectively. The variable-rate bank and other borrowings with original maturities from one to more than ten years are for financing development of property projects. Increase in interest rates would increase interest expenses. Management monitors interest rate exposure on dynamic basis and will consider hedging significant interest rate exposure should the need arise. Management considers the exposure to interest rate risk in relation to bank deposits is insignificant due to the low level of bank interest rate.

The Group's fair value interest rate risk relates primarily to its corresponding fixed-rate bank and other borrowings, notes payable, amounts due to associates, joint ventures, non-controlling shareholders and fellow subsidiaries, and amounts due from associates, joint ventures and non-controlling shareholders amounting to HK$19,235,538,000 (2017: HK$17,284,337,000), HK$80,817,822,000 (2017: HK$74,657,746,000), HK$9,171,956,000 (2017: HK$5,244,251,000) and HK$5,593,627,000 (2017: HK$Nil), respectively. Management will also consider hedging significant interest rate exposure should the need arise.

Interest rate risk sensitivity analysis

The analysis is prepared assuming the amount of assets/liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2017: 100) basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year would decrease/increase by HK$92,182,000 (2017: HK$38,963,000) after capitalising finance costs in properties under development and investment properties under construction of HK$825,112,000 (2017: HK$719,741,000). This is mainly attributable to the Group's exposure to cash flow interest rates on its variable-rate bank and other borrowings, amounts due to non-controlling shareholders and amounts due from associates and joint ventures.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The Group's assets are mainly RMB-denominated assets, however, HK$-denominated bank borrowings, British Pound-denominated bank borrowings, US$-denominated and Euro-denominated notes payable in aggregate account for 50.1% of the Group's interest bearing debts. Taking into consideration that RMB is still subject to volatility in the short-term but would become stable in the medium term, the foreign exchange risk should be short-term and relatively controllable. Management manages its foreign currency risk by closely reviewing the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(i) **Market risk** *(continued)*

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	2018	2017
	HK$'000	*HK$'000*
Assets		
HK$	**4,751,865**	13,255,870
United States dollars ("US$")	**4,658,929**	6,720,415
British Pound ("GBP")	**630,520**	–
Liabilities		
HK$	**37,033,940**	35,066,100
US$	**50,248,200**	42,459,040
Euro ("EUR")	**8,942,881**	9,337,762

Currency risk sensitivity analysis

The Group mainly exposes to the currency risk of US$, HK$ and EUR. The following details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the functional currencies of group entities against US$, HK$ and EUR respectively. 5% (2017: 5%) is the sensitivity rate used as it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable in currencies other than the functional currencies of the group entities.

For a 5% (2017: 5%) decrease of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would decrease by HK$3,485,882,000 (2017: HK$2,707,105,000) after increase in capitalising of exchange losses in properties under development of HK$209,797,000 (2017: HK$Nil).

For a 5% (2017: 5%) increase of functional currencies of group entities against US$, HK$, EUR and all other variables were held constant, the Group's profit before tax for the year would increase by HK$2,852,995,000 (2017: HK$2,459,529,000) after decrease in capitalising of exchange losses in properties under development of HK$842,684,000 (2017: HK$247,576,000).

This is mainly attributable to the Group's exposure to outstanding amounts due from associates and joint ventures, bank balances, bank and other borrowings and notes payable at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(ii) Credit risk

At 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group are arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amounts of financial guarantees issued by the Group as disclosed in Note 41.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

For the trade receivables arising from sales of properties, the Group managed the credit risk by fully receiving cash or properly arranging the purchasers' mortgage loans financing procedures before delivery of properties unless strong credit records of the customers could be established. The Group closely monitors the collection of progress payments from customers in accordance with payment schedule agreed with customers. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments.

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

For other receivables, amounts due from associates, joint ventures and non-controlling shareholders, the Group does not have any other significant concentration of credit risk. The Group would closely monitor the financial positions including the net assets backing of the associates, joint ventures and non-controlling shareholders, which are mainly engaged in property development business in Hong Kong and the PRC and their property development projects are profitable. Based on the above assessment, management considered that the expected credit loss is minimal and the directors are of the opinion that the risk of default by counterparties is low.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on bank and other borrowings and notes payable as a significant source of liquidity. At 31 December 2018, the Group maintains substantial undrawn committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

The following table analyses the contractual undiscounted cash flows of the Group's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group is required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from flat rate at the end of the reporting period. The undiscounted amounts are subject to changes if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31 December 2018						
Trade and other payables	**55,763,481**	**3,253,060**	**893,944**	**95,358**	**60,005,843**	**60,005,843**
Amounts due to fellow subsidiaries	**1,017,245**	**–**	**–**	**–**	**1,017,245**	**977,998**
Amounts due to associates	**1,888,150**	**–**	**–**	**–**	**1,888,150**	**1,867,490**
Amounts due to joint ventures	**9,006,796**	**–**	**–**	**–**	**9,006,796**	**8,959,739**
Amounts due to non-controlling shareholders	**15,687,106**	**2,152,238**	**–**	**–**	**17,839,344**	**17,134,524**
Bank and other borrowings	**19,570,417**	**39,132,313**	**64,901,944**	**4,612,678**	**128,217,352**	**115,131,154**
Notes payable	**18,044,979**	**12,155,202**	**37,223,740**	**37,313,101**	**104,737,022**	**80,817,822**
Financial guarantee contracts	**46,353,084**	**200,169**	**1,871,317**	**–**	**48,424,570**	**–**
	167,331,258	**56,892,982**	**104,890,945**	**42,021,137**	**371,136,322**	**284,894,570**
At 31 December 2017						
Trade and other payables	47,193,450	3,213,744	1,331,815	87,290	51,826,299	51,826,299
Amounts due to fellow subsidiaries	756,994	–	–	–	756,994	756,994
Amounts due to associates	2,033,114	–	–	–	2,033,114	2,028,855
Amounts due to joint ventures	5,436,991	–	–	–	5,436,991	5,425,631
Amounts due to non-controlling shareholders	5,413,282	4,048,307	–	–	9,461,589	8,852,975
Bank and other borrowings	17,450,074	14,147,476	81,715,541	3,206,051	116,519,142	103,580,691
Notes payable	6,686,611	21,258,516	35,471,186	39,533,698	102,950,011	74,657,746
Financial guarantee contracts	51,740,067	1,200,000	916,092	–	53,856,159	–
	136,710,583	43,868,043	119,434,634	42,827,039	342,840,299	247,129,191

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial Risk Management Objectives and Policies *(continued)*

(iii) Liquidity risk *(continued)*

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amounts if that amounts are claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely that no amount will be payable under the arrangement. However, this estimate is subjected to change depending on the probability of the counterparty claiming under the guarantee that the guaranteed financial receivables held by the counterparty suffers credit losses.

c. Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial guarantee contracts are determined using discounted cash flow models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss given the default; and

- The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Other than the notes payable as disclosed in Note 34, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

7. REVENUE

Revenue comprises sales from property development activities, property rentals and income from other operations. An analysis of the Group's revenue for the year is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Sales from property development activities	**167,036,568**	162,139,770
Property rentals	**3,533,516**	2,450,060
Others *(Note)*	**890,975**	1,455,133
Revenue	**171,461,059**	166,044,963
Business tax	**(1,802,162)**	(2,072,793)
Net revenue	**169,658,897**	163,972,170

Note: Others mainly comprise revenues from hotel operation, provision of real estate management services, and construction and building design consultancy services.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's management for the purposes of resources allocation and performance assessment. The Group's operating and reportable segments under HKFRS 8 and the types of revenue are as follows:

Property development	–	sales from property development activities
Property investment	–	property rentals
Other operations	–	revenue from hotel operation, provision of real estate management services, and construction and building design consultancy services

Segment Revenue and Results

The following is an analysis of the Group's revenue and results (including share of results of associates and joint ventures) by reportable segments:

Year ended 31 December 2018

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Segment total** *HK$'000*
Revenue from contracts with customers				
– Recognised at a point in time	**141,944,667**	**–**	**–**	**141,944,667**
– Recognised over time	**25,091,901**	**–**	**890,975**	**25,982,876**
	167,036,568	**–**	**890,975**	**167,927,543**
Revenue from other sources				
– Rental income	**–**	**3,533,516**	**–**	**3,533,516**
Segment revenue	**167,036,568**	**3,533,516**	**890,975**	**171,461,059**
Business tax	**(1,738,870)**	**(45,867)**	**(17,425)**	**(1,802,162)**
Net revenue – External	**165,297,698**	**3,487,649**	**873,550**	**169,658,897**
Segment profit (including share of profits of associates and joint ventures)	**62,518,897**	**12,460,835**	**94,959**	**75,074,691**

Year ended 31 December 2017

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Segment total *HK$'000*
Segment revenue				
– from external customers	162,139,770	2,450,060	1,455,133	166,044,963
Business tax	(2,023,024)	(39,582)	(10,187)	(2,072,793)
Net revenue	160,116,746	2,410,478	1,444,946	163,972,170
Segment profit (including share of profits of associates and joint ventures)	51,445,746	10,000,620	273,085	61,719,451

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Segment Revenue and Results *(continued)*

Reconciliation of reportable segment profits to the consolidated profit before tax

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

Segment profits include profits from subsidiaries and share of profits of associates and joint ventures. This represents the profit earned by each segment without allocation of interest income on bank deposits, corporate expenses, finance costs and net foreign exchange (losses)/gains recognised in the consolidated income statement. This is the measure reported to management of the Group for the purposes of resources allocation and performance assessment.

	2018 ***HK$'000***	2017 *HK$'000*
Reportable segment profits	**75,074,691**	61,719,451
Unallocated items:		
Interest income on bank deposits	**1,325,088**	1,155,549
Corporate expenses	**(527,624)**	(525,226)
Finance costs	**(1,585,609)**	(1,393,544)
Net foreign exchange (losses)/gains (charged)/credited to the consolidated income statement	**(1,718,138)**	2,463,069
Consolidated profit before tax	**72,568,408**	63,419,299

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

At 31 December 2018

	Property development ***HK$'000***	**Property investment** ***HK$'000***	**Other operations** ***HK$'000***	**Segment total** ***HK$'000***
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	**510,114,769**	**112,545,545**	**2,124,988**	**624,785,302**
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	**(217,199,308)**	**(14,802,801)**	**(3,783,331)**	**(235,785,440)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 December 2017

	Property development HK$'000	Property investment HK$'000	Other operations HK$'000	Segment total HK$'000
Segment assets (including interests in and amounts due from associates and joint ventures) *(Note a)*	438,739,799	98,197,287	4,417,084	541,354,170
Segment liabilities (including amounts due to associates and joint ventures) *(Note b)*	(176,079,192)	(12,645,880)	(4,897,846)	(193,622,918)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than bank balances and cash; and
- all liabilities are allocated to reportable segments other than bank and other borrowings and notes payable.

	2018 **HK$'000**	2017 HK$'000
Reportable segment assets	**624,785,302**	541,354,170
Unallocated items:		
Bank balances and cash	**100,555,356**	104,050,615
Consolidated total assets	**725,340,658**	645,404,785
Reportable segment liabilities	**(235,785,440)**	(193,622,918)
Unallocated items:		
Bank and other borrowings	**(115,131,154)**	(103,580,691)
Notes payable	**(80,817,822)**	(74,657,746)
Consolidated total liabilities	**(431,734,416)**	(371,861,355)

Notes:

(a) Segment assets include interests in and amounts due from associates of HK$13,049,023,000 (2017: HK$8,232,345,000) and HK$12,676,787,000 (2017: HK$14,478,488,000) and interests in and amounts due from joint ventures of HK$13,633,847,000 (2017: HK$12,405,070,000) and HK$11,995,765,000 (2017: HK$9,578,197,000) respectively.

(b) Segment liabilities include amounts due to associates and joint ventures of HK$1,867,490,000 (2017: HK$2,028,855,000) and HK$8,959,739,000 (2017: HK$5,425,631,000) respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Other Segment Information

Year ended 31 December 2018

	Property development *HK$'000*	**Property investment** *HK$'000*	**Other operations** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	**110,664**	**4,820,182**	**24,246**	**4,955,092**
Gain/(loss) on disposal of property, plant and equipment	**17,996**	**(3,482)**	**7,111**	**21,625**
Gain on disposal of investment properties	**–**	**23,265**	**–**	**23,265**
Depreciation and amortisation	**170,689**	**1,429**	**45,661**	**217,779**
Gain arising from changes in fair value of investment properties	**–**	**10,412,570**	**–**	**10,412,570**
Interest income on amounts due from associates, joint ventures and non-controlling shareholders	**464,700**	**–**	**–**	**464,700**
Share of profits of associates	**2,207,624**	**–**	**–**	**2,207,624**
Share of profits of joint ventures	**1,095,814**	**118,544**	**–**	**1,214,358**

Year ended 31 December 2017

	Property development *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Amounts included in the measurement of segment results and segment assets:				
Additions to non-current assets *(Note)*	49,606	4,568,227	12,968	4,630,801
Gain arising from fair value remeasurement of the Group's previously held equity interest in a joint venture immediately prior to acquisition	–	2,140,171	–	2,140,171
Gain on acquisition of subsidiaries	–	326,267	–	326,267
Gain on disposal of property, plant and equipment	9,298	210	445	9,953
Gain on disposal of investment properties	–	40,782	–	40,782
Depreciation and amortisation	140,655	1,829	65,974	208,458
Gain arising from changes in fair value of investment properties	–	5,946,121	–	5,946,121
Interest income on amounts due from associates and joint ventures	318,206	–	–	318,206
Share of profits of associates	1,164,116	–	–	1,164,116
Share of profits of joint ventures	774,352	–	–	774,352

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. SEGMENT INFORMATION *(continued)*

Revenue from Major Products and Services

An analysis of the Group's revenue for the year from its major products and services is set out in Note 7.

Information about Geographical Areas

The Group's property development, property investment and other operations are carried out in Hong Kong, Macau, other regions in the PRC and the United Kingdom. The following table provides a geographical analysis of the Group's revenue from external customers (based on where the products and services are delivered or provided) and non-current assets (based on the location of assets).

	Revenue by geographical market		Non-current assets *(Note)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC				
Hua Nan Region	**44,116,148**	50,320,061	**16,952,609**	15,660,762
Hua Dong Region	**33,508,788**	26,651,123	**25,943,141**	21,676,621
Hua Bei Region	**31,658,797**	41,851,598	**47,248,913**	40,247,831
Northern Region	**35,255,450**	22,511,398	**3,034,948**	2,982,510
Western Region	**19,045,415**	10,809,107	**12,620,078**	11,384,651
Hong Kong and Macau	**7,477,413**	13,521,090	**3,325,635**	2,845,505
The United Kingdom	**399,048**	380,586	**6,711,488**	7,117,440
	171,461,059	166,044,963	**115,836,812**	101,915,320
Business tax	**(1,802,162)**	(2,072,793)	**–**	–
	169,658,897	163,972,170	**115,836,812**	101,915,320

Note: Non-current assets exclude investments in syndicated property project companies, available-for-sale investments, interests in and amounts due from associates, interests in and amounts due from joint ventures, other receivables and deferred tax assets.

Information about Major Customers

There was no customer who accounted for over 10% of the Group's revenue for both years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9. OTHER INCOME AND GAINS, NET

	2018 **HK$'000**	2017 *HK$'000*
Other income and gains, net include:		
Interest income on bank deposits	**1,325,088**	1,155,549
Interest income on amounts due from associates, joint ventures and non-controlling shareholders	**464,700**	381,206
Other interest income	**12,602**	–
Total interest income	**1,802,390**	1,536,755
Income from primary land development *(Note 24)*	**417,594**	835,512
Gain on disposal of property, plant and equipment	**21,625**	9,953
Net foreign exchange (losses)/gains	**(2,863,724)**	2,138,825
Add: Exchange losses arising from foreign currency borrowings capitalised	**1,145,586**	324,244
Net foreign exchange (losses)/gains recognised in the consolidated income statement	**(1,718,138)**	2,463,069

10. FINANCE COSTS

	2018 **HK$'000**	2017 *HK$'000*
Interest on bank and other borrowings and notes payable	**8,605,465**	7,388,248
Interest on amounts due to non-controlling shareholders	**564,889**	–
Other finance costs	**185,499**	106,620
Total finance costs	**9,355,853**	7,494,868
Less: Amount capitalised	**(7,770,244)**	(6,101,324)
	1,585,609	1,393,544

Finance costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 4.17% (2017: 3.71%) per annum to expenditure on qualifying assets including the effect of capitalisation of exchange losses (Note 9).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. INCOME TAX EXPENSES

	2018 **HK$'000**	2017 HK$'000
Current tax:		
PRC Corporate Income Tax ("CIT")	**13,612,892**	10,976,364
LAT	**11,463,969**	9,433,927
PRC withholding income tax	**12,725**	145,716
Hong Kong profits tax	**177,466**	300,930
Macau income tax	**271,917**	42,854
Others	**9,391**	7,887
	25,548,360	20,907,678
Under/(over)-provision in prior years:		
CIT	**–**	(1,379)
Hong Kong profits tax	**2,817**	37,872
Macau income tax	**–**	(2,522)
	2,817	33,971
Deferred tax *(Note 35)*:		
Current year	**315,261**	335,535
Total	**25,866,438**	21,277,184

Under the Law of PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of PRC subsidiaries is 25% (2017: 25%).

The provision for LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the year. Macau income tax is calculated at the prevailing tax rate of 12% (2017: 12%) in Macau.

Details of deferred tax are set out in Note 35.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11. INCOME TAX EXPENSES *(continued)*

The income tax expenses for the year are reconciled to the profit before tax per the consolidated income statement as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	**72,568,408**	63,419,299
Tax at the applicable tax rate of 25% (2017: 25%)	**18,142,102**	15,854,825
PRC withholding income tax	**12,725**	145,716
LAT	**11,463,969**	9,433,927
Tax effect of LAT	**(2,865,992)**	(2,358,482)
Tax effect of share of results of associates and joint ventures	**(855,496)**	(484,617)
Tax effect of expenses not deductible for tax purpose	**1,144,763**	353,629
Tax effect of income not taxable for tax purpose	**(102,602)**	(1,551,545)
Under-provision in prior years	**2,817**	33,971
Tax effect of tax losses not recognised	**450,694**	537,145
Utilisation of tax losses previously not recognised	**(558,326)**	(516,361)
Recognition of previously unrecognised tax losses	**(317,950)**	–
Effect of different tax rates	**(423,507)**	(213,538)
Others	**(226,759)**	42,514
Income tax expenses for the year	**25,866,438**	21,277,184

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

12. PROFIT FOR THE YEAR

	2018 **HK$'000**	2017 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration		
Audit services	**12,390**	11,940
Non-audit services	**2,644**	1,264
	15,034	13,204
Business tax	**1,802,162**	2,072,793
Depreciation of property, plant and equipment	**201,913**	192,453
Amortisation of prepaid lease payments for land	**15,866**	16,005
Staff costs including benefits and interests of directors *(Note)*	**2,882,772**	3,047,021
Rental expenses in respect of land and buildings under operating leases	**76,456**	78,071
Share of tax of		
Associates	**1,635,096**	822,745
Joint ventures	**1,008,617**	318,249
Cost of stock of properties recognised as expenses	**103,477,307**	108,245,542
Cost of inventories recognised as expenses	**491,318**	356,294
Rental income in respect of investment properties under operating leases, net of outgoings of HK$615,166,000 (2017: HK$445,488,000)	**(2,872,460)**	(1,964,990)

Note: *During the year ended 31 December 2018, expenses incurred in respect of the Share Option Schemes and A-shares Restricted Stock Incentive Plan (Note 32) were HK$125,307,000 and HK$6,993,000 (2017: HK$Nil and HK$6,906,000) respectively, which have been included in the staff costs as disclosed above.*

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees.

The employees of the Group's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme.

The total cost for retirement schemes recognised in the consolidated income statement of HK$123,917,000 (2017: HK$120,571,000), which has been included in staff costs disclosed above, represents contributions payable to the schemes by the Group in respect of the current accounting period.

Contributions totaling HK$3,962,000 (2017: HK$6,743,000) were payable to the schemes at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS

		Year ended 31 December 2018 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *(Note (v))* *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Yan Jianguo	*(ii)*	–	4,900	1,588	18	6,506
Luo Liang		–	2,741	9,086	299	12,126
Guo Guanghui	*(iv)*	–	1,155	4,065	132	5,352
Nip Yun Wing	*(iii)*	–	1,443	900	6	2,349
Non-executive Director						
Chang Ying		300	–	–	–	300
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,800	10,239	15,639	455	28,133

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

		Year ended 31 December 2017 As director				
	Notes	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *(Note (v))* *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident *HK$'000*	Total *HK$'000*
Executive Directors						
Yan Jianguo	*(ii)*	–	4,184	1,000	16	5,200
Xiao Xiao	*(i)*	–	1,666	1,497	9	3,172
Luo Liang		–	2,324	7,070	18	9,412
Nip Yun Wing	*(iii)*	–	3,348	2,350	18	5,716
Non-executive Director						
Chang Ying		300	–	–	–	300
Independent Non-executive Directors						
Li Man Bun, Brian David		500	–	–	–	500
Lam Kwong Siu		500	–	–	–	500
Fan Hsu Lai Tai, Rita		500	–	–	–	500
		1,800	11,522	11,917	61	25,300

Notes:

(i) Mr. Xiao resigned as the Chief Executive Officer effective from 1 January 2017 and then resigned as the Chairman and an Executive Director effective from 13 June 2017.

(ii) Mr. Yan was appointed as an Executive Director and the Chief Executive Officer of the Company effective from 1 January 2017. Mr. Yan was also appointed as the Chairman of the Company effective from 13 June 2017.

(iii) Resigned effective from 3 April 2018.

(iv) Appointed effective from 12 June 2018.

(v) Allowances and benefits-in-kind include housing allowance and non-cash benefits including expense incurred in respect of the annual leave in lieu.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

The performance related bonus was determined based on the Group's performance for the year.

Of the five individuals with the highest emoluments in the Group, one (2017: one) was a director of the Company whose emoluments are included above. The emoluments of the remaining four (2017: four) individuals were set out in Note 43(b).

No directors waived any emoluments in both years ended 31 December 2018 and 2017.

In addition to the benefits and interests as disclosed in the table above, during the year ended 31 December 2018, Mr. Nip Yun Wing received HK$800,000 (2017: HK$Nil) as compensation for restrictive covenant for employment by a competitive business within three years after his resignation as a director of the Company.

Save as disclosed above, no directors received any emoluments as inducement to join or upon joining the Company or as compensation for loss of office in both years ended 31 December 2018 and 2017.

During the year, Messrs Yan Jianguo and Luo Liang held directorships in CSCEC, and/or its subsidiaries/associated companies, which engaged in construction, property development and property investment and related businesses.

Save as disclosed above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during both years ended 31 December 2018 and 2017.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018 ***HK$'000***	2017 *HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**44,900,303**	40,766,835

	2018 ***'000***	2017 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of the calculation of basic and diluted earnings per share	**10,956,201**	10,956,201

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

15. DIVIDENDS

	2018 **HK$'000**	2017 HK$'000
Dividends recognised as distributions during the year		
Interim dividend paid in respect of financial year ended 31 December 2018 of HK40 cents per share (2017: interim dividend of HK35 cents per share for the financial year ended 31 December 2017)	**4,382,481**	3,834,671
Final dividend paid in respect of financial year ended 31 December 2017 of HK45 cents per share (2017: final dividend of HK42 cents per share for the financial year ended 31 December 2016)	**4,930,291**	4,601,605
	9,312,772	8,436,276

The final dividend of HK50 cents per share in respect of the financial year ended 31 December 2018 (2017: final dividend of HK45 cents per share in respect of the financial year ended 31 December 2017), amounting to HK$5,478,100,000 (2017: HK$4,930,291,000) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed, which was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements, has not been recognised as a liability in the consolidated financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES

	Completed			Under construction	
	The PRC	Hong Kong & Macau	The United Kingdom	The PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FAIR VALUE					
At 1 January 2017	46,150,651	2,323,300	6,436,700	12,182,530	67,093,181
Additions	27,023	–	–	4,540,646	4,567,669
Gain arising from changes in fair value of investment properties	4,590,080	166,200	–	1,189,841	5,946,121
Transfer upon completion	4,905,340	–	–	(4,905,340)	–
Transfer from stock of properties	3,839,687	–	–	401,311	4,240,998
Disposals	(264,957)	(10,000)	–	–	(274,957)
Acquisition of subsidiaries *(Note 38)*	9,780,396	–	–	–	9,780,396
Exchange realignment	4,546,206	–	680,740	797,035	6,023,981
At 31 December 2017	73,574,426	2,479,500	7,117,440	14,206,023	97,377,389
Additions	**367,763**	**648**	**–**	**4,450,232**	**4,818,643**
Gain arising from changes in fair value of investment properties	**4,184,628**	**301,420**	**12,300**	**5,914,222**	**10,412,570**
Transfer upon completion	**2,394,596**	**–**	**–**	**(2,394,596)**	**–**
Transfer from stock of properties	**–**	**323,032**	**–**	**4,357,524**	**4,680,556**
Disposals	**(53,301)**	**(141,000)**	**–**	**–**	**(194,301)**
Exchange realignment	**(3,925,777)**	**–**	**(418,252)**	**(1,176,426)**	**(5,520,455)**
At 31 December 2018	**76,542,335**	**2,963,600**	**6,711,488**	**25,356,979**	**111,574,402**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Valuation Processes of the Group

The fair values of the investment properties held by the Group at 31 December 2018 have been arrived on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and CBRE Limited.

The valuers mentioned above are independent firms of professional valuers not connected with the Group, who have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The Group's finance team reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least twice a year.

At each financial year end the finance team:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuers.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair Value Measurements Using Significant Unobservable Inputs

The valuation for completed investment properties was arrived at by considering the capitalised income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The valuation for investment properties under construction was arrived at by making reference to comparable selling prices, as available in the relevant market. The estimated construction costs to complete the development and estimated developer's profits at the date of valuation are also taken into account.

There was no change to the valuation techniques during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs

Description	Fair value at 31 December 2018 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	25,356,979	Residual method	Estimated selling prices	RMB8,200 – RMB84,000 per square meter
			Estimated costs to completion	RMB1,900 – RMB10,300 per square meter
			Estimated developer's profits	5.0% – 26.0%
Completed investment properties in the PRC	76,542,335	Investment approach	Prevailing market rents	RMB18 – RMB920 per square meter per month
			Reversionary yield	3.5% – 8.25%
Completed investment properties in Hong Kong and Macau	2,963,600	Investment approach	Prevailing market rents	HK$14 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.0%
Completed investment properties in the United Kingdom	6,711,488	Investment approach	Prevailing market rents	GBP45 – GBP65 per square foot per year
			Capitalisation rate	4.4% – 5.0%

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES *(continued)*

Fair Value Measurements Using Significant Unobservable Inputs *(continued)*

Information about fair value measurements using significant unobservable inputs *(continued)*

Description	Fair value at 31 December 2017 *HK$'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Investment properties under construction in the PRC	14,206,023	Residual method	Estimated selling prices	RMB8,000 – RMB80,000 per square meter
			Estimated costs to completion	RMB3,100 – RMB7,900 per square meter
			Estimated developer's profits	7.0% – 28.0%
Completed investment properties in the PRC	73,574,426	Investment approach	Prevailing market rents	RMB18 – RMB797 per square meter per month
			Reversionary yield	4.0% – 8.25%
Completed investment properties in Hong Kong and Macau	2,479,500	Investment approach	Prevailing market rents	HK$15 – HK$400 per square foot per month
			Reversionary yield	2.1% – 4.3%
Completed investment properties in the United Kingdom	7,117,440	Investment approach	Prevailing market rents	GBP43 – GBP63 per square foot per year
			Capitalisation rate	4.4% – 4.9%

Estimated costs to completion and developer's profit required are estimated by the independent valuers based on market conditions at the end of the reporting period. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The lower the costs and developer's profits, the higher the fair value.

Estimated selling prices and prevailing market rents are estimated based on the independent valuers' view of recent lettings or selling transactions within the subject properties and other comparable properties. The higher the selling prices and rents, the higher the fair value.

Reversionary yield and capitalisation rate are estimated by the independent valuers based on the risk profile of the properties being valued and the market conditions. The lower the yield and capitalisation rate, the higher the fair value.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Hotel buildings HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2017	2,029,460	2,190,231	375,377	803,736	5,398,804
Additions	6,959	15,966	9,758	30,449	63,132
Acquisition of subsidiaries *(Note 38)*	–	–	–	286	286
Disposals	(27,410)	–	(16,133)	(57,601)	(101,144)
Disposal of subsidiaries *(Note 37)*	–	–	(3,674)	(50,303)	(53,977)
Exchange realignment	66,907	144,524	25,412	52,605	289,448
At 31 December 2017	2,075,916	2,350,721	390,740	779,172	5,596,549
Additions	**33,627**	**25,137**	**4,842**	**72,843**	**136,449**
Transfer from stock of properties	**3,314**	**–**	**–**	**–**	**3,314**
Disposals	**(37,533)**	**–**	**(2,279)**	**(70,439)**	**(110,251)**
Exchange realignment	**(47,170)**	**(104,530)**	**(17,969)**	**(35,800)**	**(205,469)**
At 31 December 2018	**2,028,154**	**2,271,328**	**375,334**	**745,776**	**5,420,592**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold land and buildings *HK$'000*	Hotel buildings *HK$'000*	Plant, machinery and equipment *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Total *HK$'000*
DEPRECIATION					
At 1 January 2017	271,086	448,894	198,785	593,532	1,512,297
Provided for the year	35,181	42,798	27,197	87,277	192,453
Eliminated on disposals	(4,369)	–	(14,679)	(50,182)	(69,230)
Disposal of subsidiaries *(Note 37)*	–	–	(3,104)	(40,577)	(43,681)
Exchange realignment	15,414	36,830	12,713	42,157	107,114
At 31 December 2017	317,312	528,522	220,912	632,207	1,698,953
Provided for the year	**69,280**	**57,758**	**26,921**	**47,954**	**201,913**
Eliminated on disposals	**(133)**	**–**	**(2,560)**	**(60,528)**	**(63,221)**
Exchange realignment	**(14,465)**	**(29,793)**	**(10,268)**	**(28,797)**	**(83,323)**
At 31 December 2018	**371,994**	**556,487**	**235,005**	**590,836**	**1,754,322**
CARRYING VALUES					
At 31 December 2018	**1,656,160**	**1,714,841**	**140,329**	**154,940**	**3,666,270**
At 31 December 2017	1,758,604	1,822,199	169,828	146,965	3,897,596

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land in Hong Kong	Over the lease terms
Leasehold land and buildings	Over the shorter of the term of the relevant lease or 25 years
Hotel buildings	20 years or over the remaining lease terms
Plant, machinery and equipment	3 to 10 years
Other assets	3 to 8 years

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

18. PREPAID LEASE PAYMENTS FOR LAND

	2018	2017
	HK$'000	*HK$'000*
Land use rights in the PRC	**547,004**	592,206
Analysed for reporting purposes as:		
Non-current assets	**531,615**	575,810
Current assets	**15,389**	16,396
	547,004	592,206

19. INTERESTS IN ASSOCIATES

	2018	2017
	HK$'000	*HK$'000*
Cost of investments		
Listed in Hong Kong	**4,678,968**	2,862,287
Unlisted	**4,530,627**	2,581,975
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,839,428**	2,788,083
	13,049,023	8,232,345
Market value of the interest in the listed associate	**3,371,751**	3,611,541

Set out below are the particulars of the principal associates at 31 December 2018 and 2017. In the opinion of the directors of the Company, to give details of other associates would result in particulars of excessive length.

Name of entity	**Place of incorporation/ establishment**	**Place of operation**	**Proportion of nominal value of issued ordinary capital/registered capital indirectly held**		**Principal activities**
			2018	2017	
China Overseas Grand Oceans Group Ltd. ("COGO")*	Hong Kong	PRC	**38.32%** *(Note)*	37.98% *(Note)*	Property development and investment, and investment holding
金茂投資(長沙)有限公司	PRC	PRC	**20%**	20%	Property development
廣州利合房地產開發有限公司	PRC	PRC	**20%**	20%	Property development
上海佳晟房地產開發有限公司	PRC	PRC	**49%**	–	Property development
北京金良興業房地產開發有限公司	PRC	PRC	**40%**	40%	Property development

* *COGO is listed in the Main Board of the Hong Kong Stock Exchange.*

Note: *Pursuant to the irrevocable undertaking of the rights issue on the basis of one rights share for every two shares, the Group has taken up the full entitlement to the new shares under the rights issue of COGO on 5 February 2018. The Group's shareholding on COGO is 38.32% immediately after the completion of the rights issue.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

All of these associates are accounted for using the equity method in these consolidated financial statements.

Set out below is the summarised financial information of associate of the Group at 31 December 2018 which, in the opinion of the directors of the Company, is material to the Group.

Summarised Statement of Financial Position

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Current		
Bank balances and cash	**33,264,183**	23,702,253
Other current assets	**79,953,944**	66,026,148
Total current assets	**113,218,127**	89,728,401
Financial liabilities (excluding trade payables)	**(14,835,458)**	(8,138,421)
Other current liabilities (including trade payables)	**(56,254,913)**	(46,385,993)
Total current liabilities	**(71,090,371)**	(54,524,414)
Non-current		
Total non-current assets	**5,051,147**	5,595,345
Financial liabilities	**(23,195,463)**	(22,459,969)
Other liabilities	**(3,704,858)**	(3,876,349)
Total non-current liabilities	**(26,900,321)**	(26,336,318)
Net assets	**20,278,582**	14,463,014

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

Summarised Statement of Comprehensive Income

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Revenue	**25,571,306**	20,277,831
Depreciation and amortisation	**(54,827)**	(54,807)
Interest income	**394,818**	178,146
Interest expense	**(92,266)**	(32,500)
Profit before tax	**6,342,551**	3,182,151
Income tax expenses	**(3,841,015)**	(1,920,417)
Profit for the year	**2,501,536**	1,261,734
Other comprehensive income	**(1,547,283)**	2,104,829
Total comprehensive income	**954,253**	3,366,563
Dividends received from COGO	**78,718**	26,001

Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate

	COGO	
	2018	2017
	HK$'000	*HK$'000*
Opening net assets at 1 January	**14,463,014**	11,185,300
Adjustments on adoption of HKFRS 15, net of tax	**466,357**	–
Restated opening net assets at 1 January	**14,929,371**	11,185,300
Profit for the year	**2,501,536**	1,261,734
Rights issue and share issue expenses	**4,607,664**	–
Other comprehensive income and other reserves	**(1,554,587)**	2,084,447
Dividends paid	**(205,402)**	(68,467)
Closing net assets at 31 December	**20,278,582**	14,463,014
Non-controlling interests	**(830,403)**	(785,872)
Equity attributable to owners of the associate	**19,448,179**	13,677,142
Interest in associate (%)	**38.32%**	37.98%
Interest in associate	**7,452,542**	5,194,579
Carrying value at 31 December	**7,452,542**	5,194,579

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19. INTERESTS IN ASSOCIATES *(continued)*

Aggregate Information of Associates that are not Individually Material

	2018 HK$'000	2017 HK$'000
The Group's share of profit	**1,277,473**	684,609
The Group's share of other comprehensive income	**(128,571)**	147,199
The Group's share of total comprehensive income	**1,148,902**	831,808
Aggregate carrying amount of the Group's interests in these associates	**5,596,481**	3,037,766

The financial guarantees relating to the Group's interests in associates are disclosed in Note 41.

20. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Cost of investments, unlisted	**9,642,232**	8,871,010
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,991,615**	3,534,060
	13,633,847	12,405,070

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

20. INTERESTS IN JOINT VENTURES *(continued)*

Set out below are the particulars of the principal joint ventures at 31 December 2018 and 2017. In the opinion of the directors of the Company, to give details of other joint ventures would result in particulars of excessive length. These joint ventures are established and operating in the PRC, unless otherwise indicated.

Name of entity	Place of incorporation/ establishment	Place of operation	Proportion of nominal value of issued ordinary capital/registered capital held by the Group 2018	2017	Principal activities
重慶嘉江房地產開發有限公司	PRC	PRC	**60%^**	60%^	Property development
重慶豐盈房地產開發有限公司	PRC	PRC	**45%^**	45%^	Property development
重慶嘉益房地產開發有限公司	PRC	PRC	**50%**	50%	Property development
中國南航建設開發有限公司	PRC	PRC	**51%^**	51%^	Property development
中信保利達地產(佛山)有限公司	PRC	PRC	**50%**	50%	Property development
北京南悦房地產開發有限公司	PRC	PRC	**35%^**	35%^	Property development
杭州世茂世盈房地產開發有限公司	PRC	PRC	**50%**	50%	Property development
Top Regent Holdings Limited	Hong Kong	Hong Kong	**33.3%^**	33.3%^	Property development
廣州穗海置業有限公司	PRC	PRC	**25%^**	–	Property development
天津豪達房地產開發有限公司	PRC	PRC	**25%^**	–	Property development

^ *The Group exercises joint control over decisions about the relevant activities require unanimous consent with other joint venture partners in accordance with joint venture agreements and/or the companies' Articles, and accordingly, these companies have been accounted for as joint ventures.*

All of these joint ventures are accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, there are no individually material joint ventures.

Aggregate information of joint ventures that are not individually material

	2018 HK$'000	2017 HK$'000
The Group's share of profit	**1,214,358**	774,352
The Group's share of other comprehensive income	**(753,712)**	820,563
The Group's share of total comprehensive income	**460,646**	1,594,915
Aggregate carrying amount of the Group's interests in these joint ventures	**13,633,847**	12,405,070

The financial guarantees relating to the Group's interests in joint ventures are disclosed in Note 41.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

21. AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES UNDER NON-CURRENT ASSETS

	2018			2017		
	Interest-free	**Interest bearing**	**Total**	Interest-free	Interest bearing	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from:						
associates	**2,654,526**	**2,275,746**	**4,930,272**	4,489,974	4,479,818	8,969,792
joint ventures	**1,773,540**	**2,808,110**	**4,581,650**	3,410,484	3,182,190	6,592,674
	4,428,066	**5,083,856**	**9,511,922**	7,900,458	7,662,008	15,562,466

At 31 December 2018, the interest bearing amounts due from associates and joint ventures bear variable interest rates ranging from 4.75% to 6.18% (2017: 4.75% to 12.0%) per annum.

All the non-current amounts due from associates and joint ventures are unsecured and not expected to be recovered within one year after the end of the reporting period.

22. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials and consumables, at cost	**103,400**	82,852

23. STOCK OF PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
Completed properties	**32,431,638**	36,582,703
Properties under development *(Note)*	**350,377,114**	298,958,860
Total stock of properties	**382,808,752**	335,541,563

Note: Included in the amount are properties under development of HK$203,515,337,000 (2017: HK$243,375,920,000) not expected to be realised within twelve months from the end of the reporting period.

At 31 December 2018, stock of properties with carrying amount of HK$117,744,000 (2017: HK$403,270,000) were stated at their net realisable values.

At 31 December 2018, properties under development included the costs to fulfil contracts amounting to HK$45,049,604,000.

At 31 December 2018, stock of properties included costs incurred for a project in Beijing of HK$15,170,091,000 (2017: HK$13,283,086,000), whereby the Group entered into agreements with the Beijing local government for land development works such as relocation of residents and infrastructure constructions, and subsequent development of residential properties for sale.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

24. LAND DEVELOPMENT EXPENDITURE

	2018 **HK$'000**	2017 *HK$'000*
Cost incurred	**28,715,739**	24,305,938

The Group, together with independent third parties, entered into agreements ("Agreements") with the Beijing local government to jointly redevelop some lands in Beijing. The Group assists the Beijing local government for the land redevelopment works, which included but is not limited to the removal of the existing buildings situated on the land, the relocation of the existing residents, the provision of infrastructure systems including roads, drainage system, water, gas and electricity supply and the construction of public facilities. Pursuant to the Agreements, the Group will be reimbursed for the actual costs incurred in carrying out the land development and be entitled to the fixed returns irrespective of whether the Group will obtain the land use rights of the land in the future. The fixed return is recognised as income from primary land development under other income in the consolidated financial statements with reference to the progress for the land development.

25. TRADE AND OTHER RECEIVABLES

Proceeds receivable in respect of properties development are settled in accordance with the terms stipulated in the sale and purchase agreements.

Except for the proceeds from properties development and rental income from lease of properties which are receivable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an ageing analysis of trade receivables presented at the end of the reporting period:

	2018 **HK$'000**	2017 *HK$'000*
Trade receivables, aged		
0–30 days	**5,973,972**	6,315,313
31–90 days	**778,659**	653,876
Over 90 days	**718,485**	1,857,092
	7,471,116	8,826,281
Other receivables	**3,653,692**	5,474,286
	11,124,808	14,300,567

Before accepting any new customer, the Group uses an internal credit assessment system to assess the potential customers' credit quality and defines credit limits by customer.

In determining the recoverability of a trade receivable, management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no provision required at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

26. AMOUNTS DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES/ NON-CONTROLLING SHAREHOLDERS UNDER CURRENT ASSETS

At 31 December 2018 and 2017, all the amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

At 31 December 2017, the amounts due from associates included amounts due from COGO of HK$5,078,860,000, which were mainly arisen from the disposal of subsidiaries to COGO by the Group in 2016. The amounts included HK$3,343,788,000 which bore variable interest at the People's Bank of China prevailing lending rate per annum and HK$1,532,425,000 which bore variable interest at Hong Kong Interbank Offered Rate ("HIBOR") per annum. Apart from these, the remaining balances of amounts due from associates at 31 December 2017 were unsecured, interest-free and recoverable within one year or on demand.

At 31 December 2018, the amounts due from associates are unsecured, interest-free and recoverable within one year or on demand except for the amounts of HK$2,694,021,000 and HK$1,139,136,000, which bear fixed and variable interest rates, respectively, at 4.75% per annum.

At 31 December 2018, the amounts due from joint ventures are unsecured, interest-free and recoverable on demand except for the amounts of HK$2,670,773,000 (2017: HK$Nil) and HK$1,008,158,000 (2017: HK$Nil) which bear fixed and variable interest rates, respectively, ranging from 2.5% to 9.0% per annum.

At 31 December 2018, the amounts due from non-controlling shareholders are unsecured, interest-free and recoverable within one year or on demand except for an amount of HK$228,833,000 (2017: HK$Nil) which bears fixed interest rate at 2.1% per annum.

27. AMOUNTS DUE FROM CITIC LIMITED AND ITS SUBSIDIARIES ("CITIC GROUP")

At 31 December 2017, the amounts due from CITIC Group were unsecured, interest-free and recovered during the year ended 31 December 2018.

28. BANK BALANCES AND CASH

Included in bank balances and cash are restricted bank deposits of HK$4,450,014,000 (2017: HK$4,590,558,000) which can only be applied in the designated property development projects.

All bank deposits of the Group carry interest at market rates ranging from 0.01% to 4.47% (2017: 0.01% to 3.38%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

28. BANK BALANCES AND CASH *(continued)*

At the end of the reporting period, the Group had the following bank balances and cash denominated in foreign currencies:

	2018 HK$'000	2017 HK$'000
Bank balances and cash denominated in:		
HK$	**8,069,464**	26,647,064
US$	**4,658,929**	3,201,975

The reconciliation of liabilities arising from financing activities is as follow:

	Bank and other borrowings HK$'000	Notes payable HK$'000	Interest payable HK$'000	Amounts due to fellow subsidiaries HK$'000	Amounts due to associates HK$'000	Amounts due to joint ventures HK$'000	Amounts due to non-controlling shareholders HK$'000	Total HK$'000
At 1 January 2017	96,245,128	77,575,412	751,934	678,296	1,400,177	2,158,084	3,839,122	182,648,153
Cash flows								
– inflow from financing activities	50,199,681	–	–	108,225	529,758	3,179,097	3,485,529	57,502,290
– outflow from financing activities	(48,897,982)	(5,815,625)	(7,592,840)	(29,527)	(25,581)	(75,355)	(570,885)	(63,007,795)
Exchange realignment	4,871,102	2,828,221	93,337	–	147,297	163,805	456,118	8,559,880
Other non-cash movements	1,162,762	69,738	7,429,071	–	(22,796)	–	1,643,091	10,281,866
At 31 December 2017	103,580,691	74,657,746	681,502	756,994	2,028,855	5,425,631	8,852,975	195,984,394
Cash flows								
– inflow from financing activities	**27,557,261**	**19,137,071**	**–**	**221,004**	**668,593**	**4,281,720**	**8,306,646**	**60,172,295**
– outflow from financing activities	**(12,227,084)**	**(11,475,000)**	**(8,812,407)**	**–**	**(1,127,525)**	**(474,468)**	**(775,108)**	**(34,891,592)**
Exchange realignment	**(3,888,372)**	**(1,577,378)**	**(35,766)**	**–**	**(84,280)**	**(273,144)**	**(784,493)**	**(6,643,433)**
Other non-cash movements	**108,658**	**75,383**	**9,171,812**	**–**	**381,847**	**–**	**1,534,504**	**11,272,204**
At 31 December 2018	**115,131,154**	**80,817,822**	**1,005,141**	**977,998**	**1,867,490**	**8,959,739**	**17,134,524**	**225,893,868**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

29. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
Trade payables, aged		
0–30 days	**17,871,619**	12,550,567
31–90 days	**3,273,273**	1,392,923
Over 90 days	**20,768,075**	20,223,088
	41,912,967	34,166,578
Other payables	**7,024,946**	6,537,816
Retentions payable	**11,067,930**	11,121,905
	60,005,843	51,826,299

Other payables mainly include other taxes payable and accrued charges.

Of the other payables and retentions payable, an amount of HK$4,242,362,000 (2017: HK$4,632,851,000) is due beyond twelve months from the end of the reporting period.

30. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ASSOCIATES/JOINT VENTURES

At 31 December 2018, the amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand except for the amounts of HK$710,095,000 (2017: HK$Nil) which bear fixed interest rate ranging from 5.5% to 6.0% per annum.

At 31 December 2018, except for the unsecured amounts due to associates and joint ventures of HK$1,437,225,000 (2017: HK$1,216,867,000) and HK$1,712,929,000 (2017: HK$307,229,000), respectively, which bear fixed interest rates ranging from 0.35% to 5.23% (2017: 0.35% to 3.70%) per annum and repayable within one year, all the amounts due to associates and joint ventures are unsecured, interest-free and repayable on demand.

31. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

At 31 December 2018, the current amounts due to non-controlling shareholders are unsecured, interest-free and repayable on demand except for the amounts of HK$4,148,375,000 (2017: HK$2,067,143,000) and HK$2,694,525,000 (2017: HK$61,504,000) which bear fixed and variable interest rates, respectively, ranging from 4.35% to 8.0% (2017: 4.75% to 6.18%) per annum.

At 31 December 2018, the non-current amounts due to non-controlling shareholders are unsecured, interest-free and not repayable within one year from the end of the reporting period except for the amounts of HK$1,163,332,000 (2017: HK$1,653,012,000) and HK$758,467,000 (2017: HK$2,050,749,000) which bear fixed and variable interest rates, respectively, ranging from 5.23% to 8.5% (2017: 5.23% to 8.0%) per annum.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32. SHARE CAPITAL

	2018 Number of shares '000	2018 Value HK$'000	2017 Number of shares '000	2017 Value HK$'000
Issued and fully paid				
At beginning and end of the year	**10,956,201**	**90,420,438**	10,956,201	90,420,438

Share-based Payments

Share Option Schemes by the Group

On 29 June 2018, the Company offered to grant share options (the "Share Options") to certain eligible persons (collectively, the "Grantees"), to subscribe for a total of 107,320,000 shares of the Company, subject to acceptance of the Grantees, under the share option scheme adopted by the Company on 11 June 2018. Out of the 107,320,000 Share Options granted, a total of 2,000,000 Share Options were granted to directors of the Company. The exercise price is HK$25.85 per share.

One-third of the Share Options granted will vest on each of 29 June 2020, 29 June 2021 and 29 June 2022. The closing price immediately before 29 June 2018 was HK$25.85 per share.

The fair value of the Share Options on the 29 June 2018 determined using the Binomial Options Pricing Model was HK$6.36 per share. The significant inputs adopted in the model include:

Risk-free rate	2.12% with reference to the market yield rates of the Hong Kong Government Bond (maturing 21 June 2021 and 6 December 2021) as of the 29 June 2018
Historical volatility	31.91% calculated based on the historical price with period equals to the life the Share Options
Cap of the share-based payments	40% of respective Grantees' remuneration
Dividend yield	3.09% based on the average dividend yield in the past six years
Expected option life	6 years

The Binomial Options Pricing Model requires input of subjective assumptions such as the expected stock price volatility. Change in the subjective input may materially affect the fair value estimates.

Set out below are summaries of options granted under the plan:

	2018 Average exercise price per share	2018 Number of share options '000
At 1 January	**Nil**	**–**
Granted during the year	**HK$25.85**	**107,320**
Forfeited during the year	**HK$25.85**	**(2,280)**
At 31 December	**HK$25.85**	**105,040**

No options were expired and exercised during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32. SHARE CAPITAL *(continued)*

Share-based Payments *(continued)*

Share Option Schemes by the Group *(continued)*
Share options outstanding at the end of the year have the following expiry date and exercise price:

Grant Date	Expiry date	Exercise price per share	Number of share options
29 June 2018	28 June 2024	HK$25.85	105,040,000
Weighted average remaining contractual life of options outstanding at end of the year			5.5 years

A-shares Restricted Stock Incentive Plan by Group's Holding Entities

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of China State Construction Engineering Corporation Limited ("CSCECL"), an intermediate holding company of the Company, 10,200,000 incentive shares were granted to certain employees of the Company (the "Employees", including one director and certain members of senior management) on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share, subject to a lock-up period of two-year service from the Grant Date (the "Lock-up Period"). During the Lock-up Period, the incentive shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the incentive shares are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over the incentive shares will be removed, otherwise, CSCECL has constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or individual's key performance indicators are not achieved.

The fair value of the incentive shares on the Grant Date determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs adopted in the model include:

Closing price on the Grant Date	RMB9.16 per share
Exercise price	RMB4.866 per share
Average volatility	44%
Average dividend yield	3.32%
Average annual risk-free interest rate	2.84%

The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Pursuant to the bonus issue of CSCECL on the basis of 4 new shares for 10 existing shares during 2018, there was an increase in number of ordinary shares of CSCECL. As the fair value of the incentive shares on the Grant Date remained RMB2.21 per share, the number of incentive shares granted on the Grant Date and the exercise price per share were adjusted to 14,280,000 shares and RMB3.476 per share respectively.

	2018 **'000**	2017 '000
Number of shares issued under the Incentive Plan to Employees at end of the year	**13,314**	10,260

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

33. BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank and other borrowings		
– secured	–	963,072
– unsecured	**115,131,154**	102,617,619
	115,131,154	103,580,691

	2018 HK$'000	2017 HK$'000
The bank and other borrowings are repayable as follows:		
Within one year	**14,627,002**	13,324,575
More than one year, but not exceeding two years	**37,485,474**	10,464,457
More than two years, but not exceeding five years	**57,526,825**	77,029,249
After five years	**5,491,853**	2,762,410
Total bank and other borrowings	**115,131,154**	103,580,691
Less: Amounts classified as current liabilities	**(14,627,002)**	(13,324,575)
Amounts classified as non-current liabilities	**100,504,152**	90,256,116

Borrowings of the Group with carrying amount of HK$76,109,214,000 (2017: HK$66,505,362,000) bear interest at rates ranging from 4.28% to 7.50% (2017: 4.28% to 7.50%) per annum and are denominated in RMB. Borrowings of the Group amounting to HK$1,988,000,000 (2017: HK$2,009,229,000), which are denominated in GBP, are based on London Interbank Offered Rate plus a specified margin per annum. The remaining borrowings of the Group amounting to HK$37,033,940,000 (2017: HK$35,066,100,000), which are denominated in HK$, are based on HIBOR plus a specified margin per annum.

The Group's weighted average borrowing cost excluding the effect of capitalisation of exchange losses of HK$1,145,586,000 (2017: HK$324,244,000) is 4.30% (2017: 4.27%) per annum. The borrowings amounting to HK$19,235,538,000 (2017: HK$17,284,337,000) and HK$95,895,616,000 (2017: HK$86,296,354,000) are carried at fixed interest rates and variable interest rates respectively.

At 31 December 2017, secured bank and other borrowings of the Group were pledged by certain assets as set out in Note 42.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34. NOTES PAYABLE

At 31 December 2018 and 2017, the Group has the following notes issued with similar terms and conditions and different features:

Issue date	**Principal amount** *(in million)*	**Issue price**	**Fixed interest rate per annum**	**Maturity date**	**Fair value at 31 December 2018** ***HK$'000***	**Carrying amount at 31 December 2018** ***HK$'000***	2017 *HK$'000*
10 November 2010	US$1,000 (i) (approximately HK$7,750)	100%	5.50% (iv)	10 November 2020	**8,086,383**	**7,734,371**	7,726,588
15 November 2012	US$700 (i) (approximately HK$5,425)	99.665%	3.95% (iv)	15 November 2022	**5,475,437**	**5,397,827**	5,391,484
15 November 2012	US$300 (i) (approximately HK$2,325)	99.792%	5.35% (iv)	15 November 2042	**2,456,836**	**2,303,585**	2,303,148
29 October 2013	US$500 (i) (approximately HK$3,877)	99.613%	3.375% (iv)	29 October 2018	**–**	**–**	3,870,708
29 October 2013	US$500 (i) (approximately HK$3,877)	99.595%	5.375% (iv)	29 October 2023	**4,123,940**	**3,857,788**	3,854,459
29 October 2013	US$500 (i) (approximately HK$3,877)	99.510%	6.375% (iv)	29 October 2043	**4,640,734**	**3,841,628**	3,841,059
8 May 2014	US$550 (i) (approximately HK$4,263)	99.786%	4.25% (iv)	8 May 2019	**4,321,987**	**4,261,057**	4,254,386
8 May 2014	US$450 (i) (approximately HK$3,488)	99.554%	5.95% (iv)	8 May 2024	**3,814,141**	**3,467,905**	3,464,760
8 May 2014	US$250 (i) (approximately HK$1,938)	101.132%	4.25% (iv)	8 May 2019	**1,964,540**	**1,938,895**	1,941,430
8 May 2014	US$250 (i) (approximately HK$1,938)	103.080%	5.95% (iv)	8 May 2024	**2,118,967**	**1,967,870**	1,972,546
11 June 2014	US$500 (i) (approximately HK$3,876)	99.445%	6.45% (iv)	11 June 2034	**4,547,142**	**3,839,804**	3,838,472
15 July 2015	EUR600 (i) (approximately HK$5,086)	99.587%	1.75% (iv)	15 July 2019	**5,420,701**	**5,367,341**	5,604,209
6 November 2015	EUR400 (i) (approximately HK$3,375)	99.541%	1.70% (v)	6 November 2019	**3,625,303**	**3,575,540**	3,733,553
19 November 2015	RMB3,404 (approximately HK$3,894) (2017: RMB7,000 (approximately HK$8,393) (ii))	100%	4.20% (v) (2017: 3.40%)	19 November 2021	**3,911,014**	**3,894,412**	8,433,735
19 November 2015	RMB1,000 (iii) (approximately HK$1,199)	100%	3.85% (v)	19 November 2022	**1,135,745**	**1,144,165**	1,204,819
9 December 2015	RMB1,015 (approximately HK$1,161) (2017: RMB4,000 (approximately HK$4,749) (ii))	100%	4.80% (v)	9 December 2020	**1,161,327**	**1,151,561**	4,794,779
15 January 2016	RMB1,000 (ii) (approximately HK$1,110)	100%	4.40% (v)	15 January 2021	**1,144,165**	**1,134,543**	1,198,695
23 August 2016	RMB6,000 (iii) (approximately HK$6,719)	100%	3.10% (v)	23 August 2026	**6,736,002**	**6,864,988**	7,228,916
5 February 2018	RMB3,000 (i) (approximately HK$3,743)	100%	5.60% (v)	6 February 2021	**3,432,494**	**3,432,494**	–
26 April 2018	US$750 (i) (approximately HK$5,850)	99.844%	4.25% (iv)	26 April 2023	**5,905,069**	**5,825,210**	–
26 April 2018	US$750 (i) (approximately HK$5,850)	99.646%	4.75% (iv)	26 April 2028	**5,941,316**	**5,812,261**	–
22 October 2018	RMB3,500 (ii) (approximately HK$4,005)	100%	4.00% (v)	22 October 2024	**4,004,577**	**4,004,577**	–
						80,817,822	74,657,746
			Less: Amounts classified as current liabilities			**(16,277,376)**	(17,099,222)
			Amounts classified as non-current liabilities			**64,540,446**	57,558,524

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34. NOTES PAYABLE *(continued)*

Notes:

(i) *The notes payable are unconditionally and irrevocably guaranteed by the Company. They shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the trust deed which include, inter alia, the negative pledge given by the Company and the related subsidiaries.*

(ii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the third year from issue date. Notes payable of RMB6,581 million (approximately HK$8,087 million) were sold back during the year ended 31 December 2018.*

(iii) *The notes payable with terms for adjustment of the interest rate and sell back option at the end of the fifth year from issue date.*

(iv) *Payable semi-annually*

(v) *Payable annually*

(vi) *The fair values of the notes payable at 31 December 2018 were determined based on the closing market prices of the notes payable and are within Level 1 of the fair value hierarchy.*

35. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

Deferred tax liabilities/(assets)

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Fair value adjustment on properties *HK$'000*	Undistributed earnings of PRC subsidiaries and joint ventures *HK$'000*	Other taxable temporary differences *HK$'000*	Unrealised profit *HK$'000*	Tax loss *HK$'000*	Provision for LAT *HK$'000*	Other deductible temporary differences *HK$'000*	Total *HK$'000*
At 1 January 2017	49,333	8,069,793	707,676	391,348	189,091	(171,295)	(61,381)	(2,916,151)	(169,071)	6,089,343
Charged/(credited) to profit or loss	–	1,388,237	(243,586)	16,311	193,341	13,409	(60,481)	(947,718)	(1,544)	357,969
Disposal of investment properties	–	(22,434)	–	–	–	–	–	–	–	(22,434)
Acquisition/disposal of subsidiaries	–	–	1,638,428	–	–	–	26,190	–	–	1,664,618
Exchange realignment	–	654,009	122,056	30,294	23,119	(12,517)	(3,220)	(90,708)	(10,665)	712,368
At 31 December 2017	49,333	10,089,605	2,224,574	437,953	405,551	(170,403)	(98,892)	(3,954,577)	(181,280)	8,801,864
Adjustments on adoption of HKFRS 15 *(Note 2(a))*	**–**	**–**	**–**	**–**	**737,994**	**–**	**(4,671)**	**275,725**	**–**	**1,009,048**
Restated balance at 1 January 2018	**49,333**	**10,089,605**	**2,224,574**	**437,953**	**1,143,545**	**(170,403)**	**(103,563)**	**(3,678,852)**	**(181,280)**	**9,810,912**
Charged/(credited) to profit or loss	**2,215**	**2,524,525**	**(163,207)**	**(265,097)**	**149,521**	**(7,805)**	**(333,959)**	**(1,571,973)**	**18,449**	**352,669**
Disposal of investment properties	**–**	**(37,408)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37,408)**
Exchange realignment	**–**	**(602,679)**	**(27,174)**	**(641)**	**(43,951)**	**9,681**	**17,933**	**166,305**	**6,169**	**(474,357)**
At 31 December 2018	**51,548**	**11,974,043**	**2,034,193**	**172,215**	**1,249,115**	**(168,527)**	**(419,589)**	**(5,084,520)**	**(156,662)**	**9,651,816**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

35. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2018 **HK$'000**	2017 HK$'000
Net deferred tax assets	**(5,888,836)**	(4,902,484)
Net deferred tax liabilities	**15,540,652**	13,704,348
	9,651,816	8,801,864

Under the CIT Law of PRC, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$7,649,209,000 (2017: HK$5,909,801,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of HK$11,812,935,000 (2017: HK$12,757,231,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the tax losses are losses of HK$7,901,250,000 (2017: HK$6,808,726,000) that will expire within five years from the end of the reporting period. Other tax losses may be carried forward indefinitely.

36. GOODWILL

	2018 **HK$'000**	2017 HK$'000
Carrying amounts	**64,525**	64,525

The amount represented goodwill arising from acquisition of the entire equity interest in Hua Yi Designing Consultants Limited ("Hua Yi"). Hua Yi and its subsidiary are principally engaged in the provision of building design consultancy services and investment holding. For the purpose of impairment testing, the attributable amount of goodwill, having indefinite useful lives, has been allocated to the other operations category in the reportable segment.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

37. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 20 October 2017, the Group entered into a sale and purchase agreement with 中海物業管理有限公司, a wholly-owned subsidiary of China Overseas Property Holdings Limited ("COPL"), which is a fellow subsidiary of the Company, to dispose of the entire equity interests of 中信物業服務有限公司 ("中信物業") for a cash consideration of RMB190,000,000 (equivalent to HK$220,930,000). 中信物業 and its subsidiaries are principally engaged in property management businesses in mainland China. The disposal was completed on 21 December 2017.

In addition to the above disposal, the Group has also completed a disposal of a subsidiary during the year.

The total net assets of the disposed subsidiaries at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	10,296
Deferred tax assets	26,190
Trade and other receivables	86,593
Bank balances and cash	354,670
Amounts due from related companies	183,721
Other assets	12,122
Trade and other payables	(337,007)
Receipts in advance and other deposits	(120,032)
Tax liabilities	(46,311)
Amounts due to related companies	(97,176)
Net assets	73,066
Non-controlling interests	(2,069)
	70,997
Gain on disposal of subsidiaries	165,865
Considerations	236,862

Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:

	HK$'000
Cash considerations received during the year	192,678
Less: Cash and cash equivalents disposed	(354,670)
	(161,992)

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

38. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

On 17 June 2017, Beauty Select Limited ("Beauty Select"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with GCPF Shanghai 65 Corp. ("GCPF"), pursuant to which Beauty Select agreed to purchase and GCPF agreed to sell the 50% of the issued shares of Big Profit Enterprises Limited ("Big Profit") at a total cash consideration of USD232,545,000 (equivalent to HK$1,813,903,000). Related shareholder's loan of USD160,840,000 (equivalent to HK$1,252,185,000) was also acquired as part of the acquisition. Big Profit is an investment holding company and holds 100% equity interest in 上海中海海軒房地產有限公司 (Shanghai COB Haixuan Real Estate Co., Limited) ("Shanghai COB Haixuan"), which is engaged in property investment business in Shanghai, the PRC. The acquisition was completed on 27 June 2017 and Big Profit became a wholly-owned subsidiary of the Company.

Before the acquisition, the Group held 50% equity interest in Big Profit which was accounted for as a joint venture of the Group. The Group remeasured its equity interest in Big Profit immediately prior to the acquisition date, resulting in a gain arising from fair value remeasurement of HK$2,140,171,000. In addition, a gain on acquisition of subsidiaries of HK$326,267,000, being the difference between the fair value of total identifiable net assets acquired and the aggregate consideration transferred and fair value of previously held equity interest, was recognised.

The acquisition-related costs have been expensed off and are included in the administrative expenses in the profit or loss.

The following table summarised the consideration for the acquisition as mentioned above, and the fair value of assets acquired and liabilities assumed at the acquisition date.

	HK$'000
Aggregate consideration transferred and fair value of previously held equity interest:	
Total consideration	1,813,903
Fair value of the previously held equity interest in Big Profit immediately prior to acquisition	2,140,171
	3,954,074

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

38. ACQUISITION OF SUBSIDIARIES *(continued)*

For the year ended 31 December 2017 *(continued)*

	Fair value on acquisition HK$'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Investment properties	9,780,396
Property, plant and equipment	286
Other receivables, deposits and prepayments	21,817
Bank balances and cash	58,129
Trade and other payables	(371,664)
Bank borrowings	(1,065,825)
Deferred tax liabilities	(1,638,428)
Loans due to GCPF	(1,252,185)
Loans due to the Group	(1,252,185)
Total identifiable net assets acquired	4,280,341
Gain on acquisition of subsidiaries	(326,267)
	3,954,074
Net cash outflow arising from acquisition:	
Cash consideration paid	(1,813,903)
Acquisition of loans owed by Big Profit to GCPF	(1,252,185)
Cash and cash equivalents acquired	58,129
	(3,007,959)

Big Profit and Shanghai COB Haixuan had contributed to the Group's revenue and profit amounting to HK$10,748,000 and a loss of HK$36,936,000 for the year ended 31 December 2017 respectively since the date of acquisition.

Had the acquisition of Big Profit been completed on 1 January 2017, the Group's revenue and profit for the year ended 31 December 2017 would have been HK$166,044,963,000 and HK$42,141,989,000 respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

39. OPERATING LEASE COMMITMENTS

The Group as Lessor

At the end of the reporting period, completed investment properties and other properties with carrying amounts of HK$86,217,423,000 (2017: HK$83,171,366,000) and HK$36,756,000 (2017: HK$163,802,000) respectively, were let out under operating leases.

Property rental income earned during the year is HK$3,533,516,000 (2017: HK$2,450,060,000), of which HK$3,496,151,000 (2017: HK$1,629,212,000) was derived from the letting of investment properties. All of the properties leased out have committed tenants for one to twenty years without termination options granted to tenants.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**2,894,367**	1,767,453
In the second to fifth year inclusive	**5,570,759**	3,391,968
After five years	**1,679,112**	1,243,992
	10,144,238	6,403,413

The Group as Lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**43,900**	59,206
In the second to fifth year inclusive	**35,470**	74,083
After five years	**334**	–
	79,704	133,289

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for two to six years.

40. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments not provided for in the consolidated financial statements:

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure in respect of investment properties:		
Contracted but not provided for	**2,777,073**	1,041,127

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

41. FINANCIAL GUARANTEES

At the end of the reporting period, the financial guarantees were as follows:

(a) Guarantees given by the Group to banks in respect of credit facilities granted to:

	2018	2017
	HK$'000	*HK$'000*
Associates		
– Maximum	**1,565,325**	1,474,104
– Utilised	**1,565,325**	1,474,104
Joint ventures		
– Maximum	**1,005,017**	1,241,988
– Utilised	**1,005,017**	1,241,988

(b) At 31 December 2018, the Group had counter indemnities amounted to HK$23,381,000 (2017: HK$20,191,000) for guarantees issued in respect of certain construction contracts undertaken by the Group.

(c) At 31 December 2018, the Group provided guarantees amounted to HK$45,854,228,000 (2017: HK$51,140,067,000) for the repayment of the mortgage bank loans granted to purchasers of the Group's properties.

The directors of the Company considered that the fair values of financial guarantee contracts at their initial recognition and at the end of the reporting period are insignificant on the basis of short maturity periods and low applicable default rates.

42. PLEDGE OF ASSETS

At the ended of the reporting period, certain assets of the Company's subsidiaries have been pledged to secure the bank borrowings of the Company's subsidiaries. The carrying values of the pledged assets at 31 December 2018 and 2017 were as follows:

	2018	2017
	HK$'000	*HK$'000*
Investment properties	–	1,937,760
	–	1,937,760

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS

(a) In addition to those balances and transactions disclosed elsewhere in the consolidated financial statements, the following material related party transactions have been entered into by the Group during the year:

Nature of transaction	NOTES	2018 HK$'000	2017 HK$'000
Fellow subsidiaries			
Property development project construction fee	(a)	**4,635,271**	4,521,464
Rental and utility income	(b)	**70,117**	2,486
Insurance fee	(c)	**117**	125
Heating pipes connection service fee	(a)	**30,435**	41,259
Building design consultancy income	(c)	**9,071**	1,939
Property management fee	(f)	**367,921**	253,109
Engineering service fee	(f)	**27,872**	9,510
Associates			
Interest income	(d)	**210,358**	294,682
Royalty income	(e)	**200,000**	203,537
Rental expenses	(b)	**17,429**	15,301
Underwriting commission income	(g)	**43,316**	–
Joint ventures			
Interest income	(d)	**224,118**	86,524

Notes:

(a) *Property development project construction fee and heating pipes connection service fee are charged in accordance with respective contracts. The amounts represent aggregate transaction amounts during the year in relation to contracts signed in current and prior years.*

(b) *Rental income and rental expenses are charged in accordance with respective tenancy agreements.*

(c) *Insurance fee and building design consultancy income are charged in accordance with respective contracts.*

(d) *Interest income is charged at interest rates as specified in Note 21 on the outstanding amounts.*

(e) *Royalty income is charged at annual fee as specified in the contracts.*

(f) *Property management fee and engineering service fee are charged at rates in accordance with respective contracts.*

(g) *In connection with the rights issue of COGO (Note 19), the Group agreed to underwrite the rights shares of COGO and is entitled to an underwriting commission income which is charged at 1.5% of the aggregate subscription price in respect of the underwritten shares.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS *(continued)*

(b) The remuneration of the Company's directors and other members of key management of the Group during the year were as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**44,663**	37,650
Bonus	**110,114**	95,140
Provident Fund contribution	**3,760**	290
	158,537	133,080

The emoluments of other members of key management of the Group were within the following bands:

	2018	2017
HK$1,000,000 or below	**1**	–
HK$1,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$5,000,000	**3**	3
HK$5,000,001 to HK$7,500,000	**5**	5
HK$7,500,001 to HK$10,000,000	**5**	7
HK$10,000,001 to HK$12,500,000	**4**	–
	18	17

The remuneration of directors and key executives are determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

43. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transactions with Other State-Controlled Entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities ("State-controlled Entities"). The directors of the Company consider those State-controlled Entities are independent third parties so far as the Group's businesses with them are concerned.

In connection with their property development activities, the Group awarded certain construction and other works contracts to entities, which to the best knowledge of management, are State-controlled Entities.

The Group has also entered into various transactions with the PRC government departments or agencies which include the acquisition of land mainly through tendering to those government departments or agencies.

Other than those disclosed in section (a) above and the acquisition of land from the government departments or agencies, the directors of the Company consider that the other transactions with those State-controlled Entities are not material to the Group.

In addition, in the normal course of business, the Group has maintained various trade balances with contractors and have entered into various deposits and lending transactions with banks and financial institutions which are State-controlled Entities. In view of the nature of those transactions, the directors of the Company are of the opinion that quantitative information on the extent of transactions between the Group and the government related entities would not be meaningful.

The Group is active in sales and lease of properties, the provision of real estate agency and management services and other services in various provinces in the PRC. The directors of the Company are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with State-controlled Entities. However, the directors of the Company are of the opinion that other than those disclosed in section (a) above, the transactions with State-controlled Entities are not material to the Group's operations.

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in the consolidated statement of financial position and Notes 21, 26, 27, 30 and 31.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment		3,879	953
Investments in subsidiaries		1,387,398	1,389,998
Amount due from a subsidiary		–	6,921,452
		1,391,277	8,312,403
Current Assets			
Stock of properties		1,139	1,139
Other receivables		17,519	15,378
Deposits and prepayments		13,442	27,955
Amounts due from subsidiaries		153,570,816	155,946,947
Tax prepaid		118	118
Bank balances and cash		9,891,876	8,627,574
		163,494,910	164,619,111
Current Liabilities			
Other payables		65,445	51,110
Other deposits		172	163
Amounts due to subsidiaries		31,843,954	26,193,168
Bank borrowings – due within one year		–	4,738,295
Other financial liabilities		153,046	190,755
		32,062,617	31,173,491
Net Current Assets		131,432,293	133,445,620
Total Assets Less Current Liabilities		132,823,570	141,758,023
Capital and Reserves			
Share capital		90,420,438	90,420,438
Reserves	*Note (a)*	2,743,640	20,586,739
Total Equity		93,164,078	111,007,177
Non-current Liabilities			
Bank borrowings – due after one year		39,317,532	30,327,805
Other financial liabilities		341,960	423,041
		39,659,492	30,750,846
		132,823,570	141,758,023

The statement of financial position of the Company was approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Yan Jianguo
DIRECTOR

Luo Liang
DIRECTOR

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note (a): Reserves of the Company

	Other reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	–	(8,505,590)	8,161,370	(344,220)
Profit and total comprehensive income for the year	–	8,794,520	20,572,715	29,367,235
2016 final dividend paid	–	–	(4,601,605)	(4,601,605)
2017 interim dividend paid	–	–	(3,834,671)	(3,834,671)
At 31 December 2017	–	288,930	20,297,809	20,586,739
Loss and total comprehensive income for the year	–	(5,046,802)	(3,608,832)	(8,655,634)
2017 final dividend paid	–	–	(4,930,291)	(4,930,291)
2018 interim dividend paid	–	–	(4,382,481)	(4,382,481)
Equity settled share-based transactions *(Note 32)*	125,307	–	–	125,307
At 31 December 2018	**125,307**	**(4,757,872)**	**7,376,205**	**2,743,640**

The Company's reserves available for distribution to shareholders at 31 December 2018 represents the retained profits of HK$7,376,205,000 (2017: HK$20,297,809,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is the particulars of the principal subsidiaries at 31 December 2018 which, in the opinion of the directors of the Company, principally affect the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Ace Dragon Development Limited	1 ordinary share HK$1	–	100	Property development
Asia Metro Investment Limited	1 ordinary share HK$1	–	80	Property development
Carmelite Riverside London S.a.r.l. (vii)	15,000 shares of GBP1 each	–	100	Property investment
China Overseas Finance (Cayman) II Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) III Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) V Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VI Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Finance (Cayman) VII Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Land International II (Cayman) Limited (v)	1 share of US$1	100	–	Issuance of guaranteed notes
China Overseas Property Limited	100 ordinary shares HK$1,000	100	–	Investment holding, property consultancy and real estate agency
China Overseas (Zhong Guo) Limited	5,000,000 ordinary shares HK$50,000,000	–	100	Investment holding
Chung Hoi Finance Limited	500,000 ordinary shares HK$5,000,000	100	–	Loan financing, investment holding and security investments

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
Gain Regent Company Limited	2 ordinary shares HK$2	–	100	Property development
Goldwell Development Limited	100 ordinary shares HK$100	–	100	Property development and investment
Great Fortune Property Limited (viii)	48,100,000 shares of GBP1 each	–	100	Property investment
Great Sky Property Investment Company Limited (vii)	MOP25,000	–	100	Property development
Longcross Limited	30,370,000 ordinary shares HK$30,370,000 404,552,883 non-voting deferred shares HK$404,552,883	–	100	Property investment
Macyat Limited	10,000 ordinary shares HK$10,000	–	100	Property development
Maxjet Company Limited	10 ordinary shares HK$10	–	100	Property development
Omar Property Development Company Limited (vi)	MOP26,000	–	85	Property development
One Finsbury Circus London PropCo S.a.r.l. (vi)	12,024 shares of GBP1 each	–	100	Property investment
中海發展(上海)有限公司 (ii)	US$17,000,000	–	100	Property development
上海新海匯房產有限公司 (iii)	US$40,000,000	–	99.5	Property development
上海中海海怡房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
上海海創房地產有限公司 (iv)	RMB10,000,000	–	100	Property development
上海中建投資有限公司 (iv)	RMB450,000,000	–	51	Property investment
上海中海海軒房地產有限公司 (iv)	US$196,000,000	–	100	Property investment
大連中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
大連中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
中海新海匯(大連)置業有限公司 (iv)	RMB20,000,000	–	100	Property development
大連中海新城置業有限公司 (iv)	RMB378,520,000	–	100	Property development
中海鼎盛(西安)房地產有限公司 (ii)	RMB2,000,000,000	–	100	Property development
西安中海振興房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
西安中海興晟房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
中海海潤(蘇州)房地產有限公司 (iv)	RMB30,000,000	–	100	Property development
中海海納(蘇州)房地產有限公司 (iv)	RMB445,000,000	–	100	Property development
寧波中海創城有限公司 (iv)	RMB20,000,000	–	100	Property development
寧波中海海興置業有限公司 (iv)	RMB20,000,000	–	100	Property development
天津中海海盛地產有限公司 (iv)	RMB3,540,000,000	–	100	Property development
天津中海海華地產有限公司 (iv)	RMB100,000,000	–	90	Property development
北京中海金石房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
北京中海新城置業有限公司 (iv)	RMB100,000,000	–	100	Property development
北京智地頤景房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
北京仁和燕都房地產開發有限公司 (iv)	RMB40,000,000	–	100	Property development
北京中建興華房地產開發有限公司 (iv)	RMB10,000,000	–	80	Property development
北京慧眼置業有限公司 (iv)	RMB25,000,000	–	80	Property development
佛山中海千燈湖房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海環宇城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
佛山中海嘉益房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
佛山海裕房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海新海匯置業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海地產（瀋陽）有限公司 (iv)	US$199,600,000	–	100	Property development
瀋陽中海嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
瀋陽中海鼎業房地產開發有限公司 (iv)	US$290,000,000	–	100	Property development
杭州中海宏鯤房地產有限公司 (iv)	RMB500,000,000	–	100	Property development
長沙中海興業房地產有限公司 (ii)	RMB662,000,000	–	100	Property development
長沙中建投資有限公司 (iv)	RMB100,000,000	–	70	Investment holding
長沙中海梅溪房地產開發有限公司 (iv)	RMB50,000,000	–	95	Property development
長春中海地產有限公司 (iii)	RMB100,000,000	–	100	Property development
長春海華房地產開發有限公司 (ii)	US$49,800,000	–	100	Property development
長春海悦房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
長春海成房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
青島中海海灣置業有限公司 (iv)	RMB10,000,000	–	100	Property development
青島中海海岸置業有限公司 (iv)	RMB1,630,000,000	–	100	Property development
南昌中海金鈺地產有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中工建設有限公司 (iv)	RMB380,000,000	–	100	Property development
重慶中海實業有限公司 (ii)	HK$1,550,000,000	–	100	Property development
重慶嘉安置業有限公司 (ii)	HK$300,000,000	–	100	Property development
重慶寶民置業有限公司 (ii)	HK$490,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
重慶海安投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶安喬置業有限公司 (iv)	RMB440,000,000	–	100	Property development
重慶中海興業實業有限公司 (iv)	HK$258,000,000	–	100	Property development
重慶中海投資有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海黎香湖投資有限公司 (iv)	RMB10,000,000	–	100	Property development
重慶中海海能房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海海盛房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
重慶中海興城房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
香港華藝設計顧問(深圳)有限公司 (ii)	RMB12,000,000	–	100	Design consultancy services
北京中海華藝城市規劃設計有限公司 (iv)	RMB1,000,000	–	100	Design consultancy services
中海地產(珠海)有限公司 (ii)	RMB405,000,000	–	100	Property development
珠海市嘉業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
珠海市永福通房地產開發有限公司	RMB20,000,000	–	100	Property development
珠海市嘉燁房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development
中海地產集團有限公司 (ii)	RMB20,000,000,000	–	100	Property development and investment, and investment holding
深圳中海地產有限公司 (iii)	HK$50,000,000	–	100	Property development
深圳市中海凱驪酒店管理有限公司 (iv)	RMB5,000,000	–	100	Hotel management
深圳市毅駿房地產開發有限公司 (iv)	RMB12,500,000	–	80	Property development
海口中海興業房地產開發有限公司 (iv)	RMB10,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海地產商業發展(深圳)有限公司 (ii)	RMB20,000,000	–	100	Commercial project
廈門中海海怡地產有限公司 (iv)	RMB10,000,000	–	100	Property development
昆明中海房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
雲南中海城投房地產開發有限公司 (iv)	RMB10,000,000	–	65	Property development
昆明泰運房地產開發有限公司 (ii)	RMB499,580,000	–	100	Property development
煙台中海地產有限公司 (iv)	RMB10,000,000	–	100	Property development
中海鼎業(煙台)地產有限公司 (ii)	RMB10,000,000	–	100	Property development
煙台中海興業地產有限公司 (iv)	RMB10,000,000	–	100	Property development
廣州毅源房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州世佳房地產開發有限公司 (iv)	RMB10,000,000	–	90	Property development
廣州荔安房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔駿房地產開發有限公司 (iv)	RMB2,800,000,000	–	100	Property development
廣州荔旭房地產開發有限公司 (iv)	RMB1,300,000,000	–	100	Property development
廣州荔璟房地產開發有限公司 (iv)	RMB1,350,000,000	–	100	Property development
濟南中海地產投資有限公司 (iv)	RMB50,000,000	–	100	Property development
濟南中海興業房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
濟南中海城房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
哈爾濱中海地產有限公司 (iv)	RMB20,000,000	–	100	Property development
哈爾濱中海龍祥房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
太原冠澤置業有限公司 (iv)	RMB200,000,000	–	100	Property development
福州中海地產有限公司 (iv)	RMB30,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
無錫中海太湖新城置業有限公司 (iv)	RMB20,000,000	–	51	Property development
無錫中海海潤置業有限公司 (iv)	RMB20,000,000	–	51	Property development
鄭州海創房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
新疆中海地產有限公司 (iv)	RMB100,000,000	–	60	Property development
北京中信房地產有限公司 (iv)	RMB50,000,000	–	100	Property development
北京中信新城房地產有限公司 (iv)	RMB500,000,000	–	80	Property development
北京國泰飯店有限公司 (iv)	RMB96,536,700	–	100	Hotel and serviced apartment operation
北京中信新城逸海房地產開發有限公司 (iv)	RMB100,000,000	–	100	Property development
大連中信海港投資有限公司 (iv)	RMB250,000,000	–	80	Property development
大連中海興隆房地產開發有限公司 (iv)	RMB20,000,000	–	100	Property development
煙台中海華業地產有限公司 (iv)	RMB26,430,000	–	100	Property development
中海華南(深圳)有限公司 (iv)	RMB530,000,000	–	100	Property development
中海深圳地產投資有限公司 (iv)	RMB20,000,000	–	100	Property development
中海興隆深圳地產有限公司 (iv)	RMB1,500,000,000	–	100	Property development
中海地產(海南)投資有限公司 (iv)	RMB20,000,000	–	100	Property development
大連匯港置業有限公司 (iv)	RMB50,000,000	–	80	Property development
北京信有成投資有限公司 (iv)	RMB2,000,000	–	100	Property development
上海中海海鵬房地產有限公司 (iv)	RMB20,000,000	–	100	Property development
湖南省中信控股有限公司 (iv)	RMB100,000,000	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
蘇州中海海隆房地產有限公司 (iv)	RMB200,000,000	–	100	Property development
珠海市盈凱達房地產有限公司 (iv)	RMB100,000,000	–	100	Property development
重慶中海鼎興實業有限公司 (iv)	RMB20,000,000	–	100	Property development
中海佳旺成都房地產開發有限公司 (iv)	RMB100,000,000	–	100	Property development
廣州市東港房地產開發有限公司 (iv)	RMB8,000,000	–	55	Property development
中海深圳房地產開發有限公司 (iv)	RMB50,000,000	–	100	Property development
佛山中海金沙水岸房地產開發有限公司 (iv)	RMB30,000,000	–	100	Property development
中海前海(深圳)投資有限公司 (iv)	RMB100,000,000	–	67	Property development
深圳市信航城資產管理有限公司 (iv)	RMB5,000,000	–	100	Property development
青島博萊置業有限公司 (iv)	RMB60,000,000	–	100	Property development
天津中信翔達房地產開發有限公司 (iv)	RMB30,000,000	–	70	Property development
深圳市雲龍城投資發展有限公司 (iv)	RMB100,000,000	–	80	Property development
湖南省中海城市廣場投資有限公司 (iv)	RMB100,000,000	–	100	Property development
湖南省中海置業開發有限公司 (iv)	RMB30,000,000	–	100	Property development
成都信蓉投資有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信蜀投資有限公司 (iv)	RMB40,000,000	–	100	Property development
四川金水灣投資有限公司 (iv)	RMB50,000,000	–	60	Property development
重慶中海振興房屋銷售有限公司 (iv)	RMB50,000,000	–	100	Property development
中信保利達地產(天津)有限公司 (iv)	US$49,500,000	–	51	Property development
成都信勤置業有限公司 (iv)	RMB20,000,000	–	100	Property development
成都信新置業有限公司 (iv)	RMB200,000,00	–	100	Property development

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of entity	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company Directly %	Indirectly %	Principal activities
中海(萬寧)房地產有限公司 (iv)	US$25,000,000	–	100	Property development
中海聯合(萬寧)房地產有限公司 (iv)	RMB100,000,000	–	80	Property development
中海仁信(萬寧)房地產開發有限公司 (iv)	US$100,000,000	–	100	Property and tourism development
萬寧仁和發展有限公司 (iv)	US$206,200,000	–	99.9	Property development and hotel operation
萬寧金信發展有限公司 (iv)	US$53,200,000	–	99.9	Property development
中海鼎業(萬寧)房地產有限公司 (iv)	US$86,000,000	–	99.9	Property development
紀亮(上海)房地產開發有限公司 (iv)	US$79,600,000	–	100	Property development
上海老西門新苑置業有限公司 (iv)	RMB2,500,000,000	–	100	Property development
上海珠街閣房地產開發有限公司 (iv)	US$161,500,000	–	100	Property development

(i) Incorporated in the British Virgin Islands
(ii) Foreign investment enterprise registered in the PRC
(iii) Joint stock limited company established in the PRC
(iv) Limited liability company registered in the PRC
(v) Incorporated in the Cayman Islands
(vi) Incorporated in Macau
(vii) Incorporated in Luxembourg
(viii) Incorporated in Jersey

None of the subsidiaries had any debt securities in issue at the end of the year except for China Overseas Finance (Cayman) II Limited, China Overseas Finance (Cayman) III Limited, China Overseas Finance (Cayman) V Limited, China Overseas Finance (Cayman) VI Limited, China Overseas Finance (Cayman) VII Limited, China Overseas Land International (Cayman) Limited, China Overseas Land International II (Cayman) Limited, 中海地產集團有限公司 and 中信房地產集團有限公司, which have issued US$1,000,000,000, US$1,000,000,000, US$1,000,000,000, US$2,000,000,000, US$1,500,000,000, EUR600,000,000, EUR400,000,000, RMB16,903,716,000 and RMB2,015,000,000 notes payable (Note 34), respectively.

Five Year Financial Summary

For the year ended 31 December 2018

(A) CONSOLIDATED RESULTS

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	164,654,215	169,561,797	164,068,528	166,044,963	**171,461,059**
Business tax	(9,026,503)	(9,222,727)	(5,351,547)	(2,072,793)	**(1,802,162)**
Net revenue	155,627,712	160,339,070	158,716,981	163,972,170	**169,658,897**
Operating profit	49,226,431	50,553,590	57,905,305	62,874,375	**70,732,035**
Net gain on distribution in specie	–	2,512,965	–	–	**–**
Share of profits of					
Associates	650,382	408,425	476,682	1,164,116	**2,207,624**
Joint ventures	512,786	650,333	775,770	774,352	**1,214,358**
Finance costs	(2,635,748)	(2,757,312)	(2,055,956)	(1,393,544)	**(1,585,609)**
Profit before tax	47,753,851	51,368,001	57,101,801	63,419,299	**72,568,408**
Income tax expenses	(18,638,990)	(15,953,805)	(18,711,025)	(21,277,184)	**(25,866,438)**
Profit for the year	29,114,861	35,414,196	38,390,776	42,142,115	**46,701,970**
Attributable to:					
Owners of the Company	28,682,784	34,643,211	37,020,638	40,766,835	**44,900,303**
Non-controlling interests	432,077	770,985	1,370,138	1,375,280	**1,801,667**
	29,114,861	35,414,196	38,390,776	42,142,115	**46,701,970**

Note: In accordance with the transitional provisions in HKFRS 9 and HKFRS 15, the Group adopted modified retrospective approach and any adjustments are recognised at 1 January 2018 with the difference recognised in opening restated balance of equity. The consolidated results for the years ended 31 December 2014, 2015, 2016 and 2017 were not restated accordingly.

Five Year Financial Summary (continued)

For the year ended 31 December 2018

(B) CONSOLIDATED NET ASSETS

	At 31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Non-current assets					
Investment properties	55,861,441	65,467,036	67,093,181	97,377,389	**111,574,402**
Deposits for acquisition of investment properties	–	166,555	–	–	**–**
Property, plant and equipment	4,457,116	4,128,129	3,886,507	3,897,596	**3,666,270**
Prepaid lease payments for land	859,017	1,483,302	567,873	575,810	**531,615**
Interests in associates	6,563,700	6,025,552	5,512,064	8,232,345	**13,049,023**
Interests in joint ventures	12,339,637	11,883,616	10,526,289	12,405,070	**13,633,847**
Investments in syndicated property project companies	20,873	24,233	24,212	24,212	**–**
Available-for-sale investments	2,467,369	2,310,662	147,211	115,842	**–**
Amounts due from associates	2,455,571	4,998,094	2,728,181	8,969,792	**4,930,272**
Amounts due from joint ventures	2,508,588	2,693,588	2,058,017	6,592,674	**4,581,650**
Amounts due from CITIC Group	1,542,616	4,277,386	–	–	**–**
Other financial assets	67,249	–	–	–	**–**
Other receivables	–	–	–	456,540	**388,066**
Goodwill	109,021	64,525	64,525	64,525	**64,525**
Deferred tax assets	3,593,121	3,622,190	3,767,912	4,902,484	**5,888,836**
	92,845,319	107,144,868	96,375,972	143,614,279	**158,308,506**
Current assets	463,042,142	475,103,225	474,913,305	501,790,506	**567,032,152**
Total assets	555,887,461	582,248,093	571,289,277	645,404,785	**725,340,658**
Non-current liabilities					
Bank and other borrowings – due after one year	(78,327,240)	(100,510,978)	(61,773,449)	(90,256,116)	**(100,504,152)**
Notes payable – due after one year	(48,177,442)	(70,949,813)	(71,760,801)	(57,558,524)	**(64,540,446)**
Amounts due to non-controlling shareholders	(1,321,743)	(1,238,436)	(869,939)	(3,799,801)	**(2,013,003)**
Deferred tax liabilities	(7,263,570)	(8,810,321)	(9,857,255)	(13,704,348)	**(15,540,652)**
	(135,089,995)	(181,509,548)	(144,261,444)	(165,318,789)	**(182,598,253)**
Current liabilities	(263,608,523)	(185,159,018)	(199,604,474)	(206,542,566)	**(249,136,163)**
Total liabilities	(398,698,518)	(366,668,566)	(343,865,918)	(371,861,355)	**(431,734,416)**
Net assets	157,188,943	215,579,527	227,423,359	273,543,430	**293,606,242**
Equity attributable to Owners of the Company	151,415,880	209,564,281	222,248,442	265,694,287	**283,481,070**
Non-controlling interests	5,773,063	6,015,246	5,174,917	7,849,143	**10,125,172**
	157,188,943	215,579,527	227,423,359	273,543,430	**293,606,242**

Note: In accordance with the transitional provisions in HKFRS 9 and HKFRS 15, the Group adopted modified retrospective approach and any adjustments are recognised at 1 January 2018 with the difference recognised in opening restated balance of equity. The consolidated net assets at 31 December 2014, 2015, 2016 and 2017 were not restated accordingly.

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