深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00604)

2017 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Profit attributable to equity shareholders of the Company was HK$4,950.9 million, up 56.2% over the last year; if excluding the net effect of the changes in fair value of investment properties of the Group as well as gain on a bargain purchase, provision for litigation and provision of land projects in the third-tier and fourth-tier cities for the last year, profit attributable to equity shareholders of the Company was HK$4,010.4 million for the year ended 31 December 2017, representing an increase of 53.4% over the last year; basic earnings per share were HK63.64 cents, representing an increase of 50.2% over the last year;

- The Group substantially completed the disposal of projects in the third-tier and fourth-tier cities and transferred its interests in 5 project companies through public listing-for-sale, recording gains on disposal of subsidiaries (net of tax) of approximately HK$3.33 billion;

- Finance costs were maintained at a low level with a rate of 4.6% per annum; net gearing ratio (including all interest-bearing liabilities) was 49.9%;

- The Group achieved a revenue of HK$10,254.5 million, representing a decrease of 52.0% over the last year; gross profit margin was 34.6%;

- Proposed the payment of a final dividend of HK11.00 cents per share. Together with the interim dividend of HK7.00 cents per share already paid, the total dividend for the whole year will amount to HK18.00 cents per share.

The board of directors (the "Board") of Shenzhen Investment Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Notes	**2017** **$'000**	2016 *$'000*
Revenue	*4*	**10,254,496**	21,353,993
Cost of sales	*7(a)*	**(6,703,088)**	(13,083,234)
Gross profit		**3,551,408**	8,270,759
Other income and gains	*4*	**566,139**	828,743
Gain on disposal of subsidiaries	*5*	**3,676,757**	3,599
(Decrease)/increase in fair value of equity investments at fair value through profit or loss, net		**(48)**	870
Increase in fair value of investment properties		**1,161,684**	1,204,139
Recognition of change in fair value upon transfer to investment properties		**96,808**	654,516
Selling and distribution expenses		**(232,117)**	(362,224)
Administrative expenses		**(884,183)**	(956,298)
Other operating expenses		**(368,977)**	(1,656,121)
Finance costs	*6*	**(747,532)**	(838,167)
Share of profits less losses of joint ventures and associates		**844,743**	1,142,976
Profit before taxation	*7*	**7,664,682**	8,292,792
Income tax expense	*8*	**(2,465,462)**	(4,821,911)
Profit for the year		**5,199,220**	3,470,881
Attributable to:			
Equity shareholders of the Company		**4,950,941**	3,170,581
Non-controlling interests		**248,279**	300,300
		5,199,220	3,470,881
Earnings per share (HK cents)	*9*		
Basic		**63.64**	42.36
Diluted		**63.42**	42.35

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017	2016
	$'000	*$'000*
Profit for the year	**5,199,220**	3,470,881
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss:		
– Surplus on revaluation of investment property transferred from property, plant and equipment		
– Changes in fair value	**7,064**	–
– Income tax effect	**(1,765)**	–
	5,299	–
Items that may be reclassified subsequently to profit or loss:		
– Available-for-sale investments:		
– Changes in fair value	**1,154,816**	(10,785)
– Reclassification adjustments for amounts transferred to profit or loss on disposal	**(15,468)**	–
– Income tax effect	**(284,837)**	2,696
	854,511	(8,089)
– Share of other comprehensive income of joint ventures and associates	**223,500**	(235,432)
– Cumulative exchange differences reclassified to profit or loss upon disposal of subsidiaries	**(93,486)**	–
– Exchange differences on translation of foreign operations	**3,323,009**	(2,918,015)
	4,307,534	(3,161,536)
Other comprehensive income for the year, net of tax	**4,312,833**	(3,161,536)
Total comprehensive income for the year	**9,512,053**	309,345
Attributable to:		
Equity shareholders of the Company	**9,000,057**	170,542
Non-controlling interests	**511,996**	138,803
	9,512,053	309,345

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Notes	**31 December 2017** **\$'000**	31 December 2016 *\$'000*
Non-current assets			
Property, plant and equipment		**4,746,901**	3,844,311
Prepaid land lease payments		**37,349**	36,083
Goodwill		**379,302**	322,240
Investment properties		**26,939,445**	22,807,211
Interests in associates		**4,431,186**	3,994,821
Interests in joint ventures		**4,816,707**	3,300,931
Other financial assets		**7,869,007**	112,985
Other long term assets		**3,015,861**	3,188,483
Deferred tax assets		**2,028,151**	1,954,441
Total non-current assets		**54,263,909**	39,561,506
Current assets			
Biological assets		**333**	8,136
Completed properties held for sale		**5,977,395**	7,514,657
Properties under development		**39,710,990**	35,292,229
Inventories		**115,699**	93,354
Trade receivables	*11*	**371,047**	322,506
Prepayments, deposits and other receivables		**3,799,165**	1,684,928
Equity investments at fair value through profit or loss		**4,517**	4,566
Restricted cash		**1,817,022**	2,204,157
Cash and cash equivalents		**11,167,070**	9,859,526
Total current assets		**62,963,238**	56,984,059

	Notes	**31 December 2017** **_$'000_**	31 December 2016 _$'000_
Current liabilities			
Interest-bearing bank and other borrowings		**8,137,680**	5,288,454
Trade payables	_12_	**1,622,921**	1,116,432
Other payables and accruals		**22,522,866**	17,023,915
Due to the immediate holding company		**1,359,741**	1,270,755
Due to the ultimate holding company		**5,107,312**	2,850,880
Tax payable		**7,973,704**	8,755,178
Total current liabilities		**46,724,224**	36,305,614
Net current assets		**16,239,014**	20,678,445
Total assets less current liabilities		**70,502,923**	60,239,951
Non-current liabilities			
Interest-bearing bank and other borrowings		**14,765,566**	14,468,791
Deferred income		**28,187**	27,375
Due to the immediate holding company		**781,549**	752,362
Deferred tax liabilities		**9,826,789**	8,770,489
Total non-current liabilities		**25,402,091**	24,019,017
Net assets		**45,100,832**	36,220,934
Capital and reserves			
Share capital		**19,712,476**	18,281,191
Reserves		**21,755,765**	14,529,622
Total equity attributable to equity shareholders of the Company		**41,468,241**	32,810,813
Non-controlling interests		**3,632,591**	3,410,121
Total equity		**45,100,832**	36,220,934

1 CORPORATE INFORMATION

Shenzhen Investment Limited ("the Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 8th Floor, New East Ocean Centre, 9 Science Museum Road, Kowloon, Hong Kong. The principal activities of the Company and its subsidiaries (collectively referred to as "the Group") are described in note 3.

In the opinion of the directors, the immediate holding company of the Company is Shum Yip Holdings Company Limited ("Shum Yip Holdings", 深業(集團)有限公司), which is a private company incorporated in Hong Kong. The ultimate holding company of the Company is 深業集團有限公司 ("Shum Yip Group"), which is a state-owned company established in Shenzhen, the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap.622) and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

The statutory financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The statutory financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance. The statutory financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The consolidated financial information for the year ended 31 December 2017 included in this preliminary announcement comprise the Company and its subsidiaries and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial information is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties;

– leasehold land and buildings within property, plant and equipment;

– derivative financial instruments;

– financial instruments classified as available-for-sale or as equity investments at fair value through profit or loss;

– biological assets; and

– contingent consideration payable within "due to the immediate holding company".

3 SEGMENT REPORTING

The Group manages its businesses by business units, which are organised based on their products and services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments:

(a) the property development segment engages in the development of residential, industrial and commercial properties;

(b) the property investment segment invests in residential, industrial and commercial properties for their rental income potential;

(c) the property management segment engages in the management of both properties developed by the Group and external parties;

(d) the manufacture segment engages in the manufacture and sale of industrial and commercial products; and

(e) the "others" segment comprises, principally, the hotel operations, manufacture and sale of aluminum alloy products and agricultural products, design and construction of gardens and other businesses.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets exclude deferred tax assets, restricted cash, cash and cash equivalents, equity investments at fair value through profit or loss, other financial assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, an amount due to the ultimate holding company, tax payable, an amount due to the immediate holding company, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before taxation from continuing operations. The adjusted profit before taxation from continuing operations is measured consistently with the Group's profit before taxation except that other income and gains, finance costs, fair value loss from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

2017	Property development $'000	Property investment $'000	Property management $'000	Manufacture $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	6,381,479	929,847	1,820,429	325,645	797,096	10,254,496
Intersegment sales	–	16,189	49,538	–	92,237	157,964
	6,381,479	946,036	1,869,967	325,645	889,333	10,412,460
Reconciliation						
Elimination of intersegment sales						(157,964)
Revenue						10,254,496
Segment results before increase in fair value of investment properties	5,993,308	770,323	171,248	14,091	(118,087)	6,830,883
Increase in fair value of investment properties	–	1,161,684	–	–	–	1,161,684
Recognition of change in fair value upon transfer to investment properties	–	96,808	–	–	–	96,808
Segment results after increase in fair value of investment properties	5,993,308	2,028,815	171,248	14,091	(118,087)	8,089,375
Reconciliation						
Elimination of intersegment results						(109,510)
Other income and gains						566,139
Fair value loss on financial instruments, net						(48)
Corporate and other unallocated expenses						(133,742)
Finance costs						(747,532)
Profit before taxation						7,664,682
Segment assets	58,337,980	30,789,340	509,701	150,975	3,913,127	93,701,123
Reconciliation						
Corporate and other unallocated assets						23,526,024
Total assets						117,227,147
Segment liabilities	18,338,956	4,640,678	752,103	87,631	195,756	24,015,124
Reconciliation						
Corporate and other unallocated liabilities						48,111,191
Total liabilities						72,126,315
Other segment information:						
Depreciation	68,234	33,630	23,130	4,042	87,216	216,252
Amortisation of prepaid land lease payments	–	–	–	–	1,149	1,149
Interests in associates	2,190,698	105,772	331	15,133	2,119,252	4,431,186
Interests in joint ventures	4,610,574	–	15,161	–	190,972	4,816,707
Additions to non-current segment assets during the year*	53,300	828,952	18,068	3,157	753,240	1,656,717

2016	Property development $'000	Property investment $'000	Property management $'000	Manufacture $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	17,807,883	764,802	1,556,802	298,050	926,456	21,353,993
Intersegment sales	–	17,402	50,997	–	60,553	128,952
	17,807,883	782,204	1,607,799	298,050	987,009	21,482,945
Reconciliation						
Elimination of intersegment sales						(128,952)
Revenue						21,353,993
Segment results before increase in fair value of investment properties	6,380,438	715,068	121,312	38,111	(56,941)	7,197,988
Increase in fair value of investment properties	–	1,204,139	–	–	–	1,204,139
Recognition of change in fair value upon transfer to investment properties	–	654,516	–	–	–	654,516
Segment results after increase in fair value of investment properties	6,380,438	2,573,723	121,312	38,111	(56,941)	9,056,643
Reconciliation						
Elimination of intersegment results						(97,033)
Other income and gains						828,743
Fair value gain on financial instruments, net						870
Corporate and other unallocated expenses						(658,264)
Finance costs						(838,167)
Profit before taxation						8,292,792
Segment assets	52,519,669	25,025,456	275,089	157,525	4,050,420	82,028,159
Reconciliation						
Corporate and other unallocated assets						14,517,406
Total assets						96,545,565
Segment liabilities	13,584,262	3,119,732	717,452	95,614	325,486	17,842,546
Reconciliation						
Corporate and other unallocated liabilities						42,482,085
Total liabilities						60,324,631
Other segment information:						
Depreciation	61,406	25,285	19,867	3,612	70,437	180,607
Amortisation of prepaid land lease payments	–	–	–	–	1,065	1,065
Write-down of properties under development	503,499	–	–	–	–	503,499
Write-down of completed properties held for sale	353,754	–	–	–	–	353,754
Interests in associates	2,426,225	95,931	309	15,133	1,457,223	3,994,821
Interests in joint ventures	3,118,267	–	11,052	–	171,612	3,300,931
Additions to non-current segment assets during the year*	53,471	582,180	18,126	3,168	68,347	725,292

* Additions to non-current segment assets during the year comprise additions to property, plant and equipment, investment properties, land use rights and intangible assets.

As the Group generates substantially all of its revenue from customers domiciled in Mainland China and most of its non-current assets are located in Mainland China, no geographical information is presented.

4 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	2017	2016
	$'000	*$'000*
Revenue		
Sale of properties	**6,381,479**	17,807,883
Management fee income	**1,820,429**	1,556,802
Rental income from investment properties	**929,847**	764,802
Sale of commercial and industrial goods	**325,645**	298,050
Others	**797,096**	926,456
	10,254,496	21,353,993
Other income and gains		
Interest income	**415,851**	263,938
Gain on a bargain purchase	**–**	526,249
Gain on disposal of investment properties	**–**	4,081
Gain on disposal of available-for-sale investments	**15,306**	–
Government grants	**5,047**	14,704
Others	**129,935**	19,771
	566,139	828,743

5 GAIN ON DISPOSAL OF SUBSIDIARIES

In May 2017, the Group disposed five subsidiaries to independent third parties for an aggregate consideration of RMB5,869,721,000 (equivalent to $6,659,974,000), including consideration for transferring equity interests in these subsidiaries of RMB1,584,032,000 (equivalent to $1,797,908,000) and consideration for transferring shareholders' loans to these subsidiaries of RMB4,285,689,000 (equivalent to $4,862,066,000). The net cash received by the Group from disposal of subsidiaries as reflected in consolidated cash flow statement was $6,595,393,000. These transactions resulted in a gain on disposal of subsidiaries (net of tax) of $3,325,361,000, being a gain of $3,676,757,000 deducting the related tax expenses of $351,396,000.

6 FINANCE COSTS

	2017	2016
	$'000	*$'000*
Interest on:		
Bank loans	**768,844**	775,154
Other borrowings	**214,670**	242,418
Loans from the ultimate holding company	**144,666**	202,325
Loans from the immediate holding company	**54,862**	26,861
Loans from fellow subsidiaries	**2,895**	–
Loans from a joint venture	**16,836**	–
Loans from non-controlling shareholders	**8,924**	14,049
Total interest expense on financial liabilities not at fair value through profit or loss	**1,211,697**	1,260,807
Less: Interest expense capitalised into properties under development	**(464,165)**	(422,640)
	747,532	838,167

* The borrowing costs have been capitalised at a rate of 3.18%-4.56% per annum (2016: 3.42% – 4.89%).

7 PROFIT BEFORE TAXATION

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

(a) Cost of sales

	2017	2016
	$'000	*$'000*
Cost of properties and inventories sold	**3,872,854**	10,455,681
Cost of services provided	**2,830,234**	2,627,553
	6,703,088	13,083,234

(b) Staff costs

	2017	2016
	$'000	*$'000*
Wages and salaries	**1,466,182**	1,198,107
Equity-settled share option expense	**22,867**	11,823
Pension scheme contributions	**143,686**	112,098
	1,632,735	1,322,028

(c) Other items

	2017	2016
	$'000	*$'000*
Amortisation of prepaid land lease payments	**1,149**	1,065
Depreciation	**216,252**	180,607
Impairment losses		
– trade receivables	**882**	9,150
– other receivables	**1,362**	1,401
	2,244	10,551
Reversal of impairment losses of trade receivables	**(5,357)**	(1,601)
Write-down of inventories		
– properties under development	**–**	503,499
– completed properties held for sale	**–**	353,754
– others	**–**	4,876
	–	862,129
Minimum lease payments under operating leases in respect of land and buildings	**22,653**	21,017
Net foreign exchange gain	**67,870**	(10,582)
Rental income on investment properties less direct operating expenses of $202,889,000 (2016: $115,200,000)	**(726,958)**	(649,602)
Changes in fair value of contingent consideration payable to the immediate holding company	**11,070**	34,620
Loss on disposal of property, plant and equipment	**22,489**	4,836
Auditor's remuneration		
– audit services	**5,350**	5,250
– other services	**1,061**	–
	6,411	5,250

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax was made as the Group has no assessable profits arising in or derived from Hong Kong for the year.

Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the BVI.

Under the relevant income tax law, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% on their respective taxable income during the year.

PRC Land Appreciation Tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

	2017	2016
	$'000	*$'000*
Current tax:		
Mainland China CIT	**1,271,831**	2,326,349
Withholding tax on dividend	**58,528**	139,402
LAT in Mainland China	**810,413**	3,190,927
Deferred tax		
Mainland China CIT	**343,944**	(561,709)
Withholding tax on dividend	**47,103**	4,968
LAT in Mainland China	**(66,357)**	(278,026)
Total tax charge for the year	**2,465,462**	4,821,911

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $4,950,941,000 (2016: $3,170,581,000) and the weighted average of 7,779,309,016 ordinary shares (2016: 7,484,946,956) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2017	2016
Issued ordinary shares at 1 January	**7,649,164,458**	7,384,016,988
Effect of shares issued in respect of scrip dividends	**106,950,020**	97,856,506
Effect of share options exercised	**23,194,538**	3,073,462
Weighted average number of ordinary shares at 31 December	**7,779,309,016**	7,484,946,956

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $4,950,941,000 (2016: $3,170,581,000) and the weighted average number of ordinary shares of 7,806,406,949 shares (2016: 7,486,167,671), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2017	2016
Weighted average number of ordinary shares at 31 December	**7,779,309,016**	7,484,946,956
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**27,097,933**	1,220,715
	7,806,406,949	7,486,167,671

10 DIVIDENDS

	2017	2016
	$'000	*$'000*
Dividends recognised as distribution during the year:		
Final dividend declared for 2016 – HK10.00 cents per share (2016: declared for 2015 – HK13.00 cents per share) (i)/(ii)		
Scrip shares	**601,814**	751,256
Cash	**165,152**	208,666
Special dividend declared for 2016 – HK5.00 cents per share (i)/(ii)		
Scrip shares	**300,907**	–
Cash	**82,576**	–
	1,150,449	959,922
Interim – HK7.00 cents (2016: HK7.00 cents) per ordinary share (i)/(iii)		
Scrip shares	**346,418**	15,733
Cash	**210,085**	519,151
	556,503	534,884
Dividends proposed after the end of the reporting period		
Final dividend of HK11.00 cents (2016: final dividend of HK10.00 cents) per ordinary share (i)/(iv)	**886,449**	766,966
Special dividend of HKnil cents (2016: special dividend of HK5.00 cents) per ordinary share (i)/(iv)	**–**	383,483
	886,449	1,150,449

(i) The shareholders are given the option of receiving these dividends wholly in cash, or wholly in new fully paid share(s) of the Company in lieu of cash, or partly in cash and partly in the form of scrip shares.

(ii) The Company declared a final dividend of HK10.00 cents per share and a special dividend of HK5.00 cents per share in respect of year ended 31 December 2016 amounted to $1,150,449,000, of which $247,728,000 were paid in cash and the remaining balance of $902,721,000 was settled in the form of 258,807,500 scrip shares on 18 August 2017.

The Company declared a final dividend of HK13.00 cents per share in respect of year ended 31 December 2015 amounted to $959,922,000, of which $208,666,000 were paid in cash and the remaining balance of $751,256,000 was settled in the form of 250,251,905 scrip shares on 11 August 2016.

(iii) The Company declared an interim dividend of HK7.00 cents per share in respect of year ended 31 December 2017 (2016: HK7.00 cents per share) amounted to $556,503,000 (2016: $534,884,000), of which $210,085,000 (2016: $519,151,000) were paid in cash and the remaining balance of $346,418,000 (2016: $15,733,000) was settled in the form of 91,403,262 (2016: 4,229,165) scrip shares on 20 November 2017.

(iv) On 26 March 2018, the board of directors recommends a final dividend of HK11.00 cents per share for the year ended 31 December 2017 (2016: final dividend of HK10.00 cents per share and special dividend of HK5.00 cents per share) amounted to $886,449,000, which was calculated on the basis of 8,058,624,983 shares in issue as at 26 March 2018. The proposed final dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the period.

11 TRADE RECEIVABLES

	2017	2016
	$'000	*$'000*
Trade receivables	**405,202**	357,498
Less: allowance for doubtful debts	**(34,155)**	(34,992)
	371,047	322,506

Under normal circumstances, the Group does not grant any credit terms to its customers for the sale of properties. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the contract date and net of provision, is as follows:

	2017	2016
	$'000	*$'000*
Within one year	**341,866**	310,256
One to two years	**29,181**	12,250
	371,047	322,506

12 TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	$'000	*$'000*
Within one year	**779,004**	570,813
One to two years	**358,440**	235,977
Two to three years	**175,444**	226,082
Over three years	**310,033**	83,560
	1,622,921	1,116,432

The total amounts of the trade payables are non-interest-bearing.

13 CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2017	2016
	$'000	*$'000*
Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:		
Contracted, but not provided for	**8,717,238**	5,997,713
Commitments in respect of capital contribution to a joint venture:		
Contracted, but not provided for	**2,032,500**	–

14 CONTINGENT LIABILITIES

As at 31 December 2017, the Group has given guarantees to a maximum extent of approximately $6,556,126,000 (2016: $7,869,258,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.

Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to banks. The Group is then entitled to take over the legal title of the related properties. The Group's guarantee period commences from the date of grant of the relevant mortgage loan and ends after the buyer of the Group's properties obtained the individual property ownership certificate.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty and therefore no provision has been made in connection with the guarantees.

15 PLEDGE OF ASSETS

Bank loans amounting to $402,780,000 (2016: $638,225,000) were secured by certain of the Group's assets as below:

(i) land and buildings in Mainland China with a net carrying amount of approximately $699,057,000 (2016: $678,753,000);

(ii) properties under development with a net carrying amount of nil (2016: $95,858,000); and

(iii) investment properties with a net carrying amount of approximately $521,752,000 (2016: $777,095,000).

In addition, Shum Yip Group, the ultimate holding company, has guaranteed certain of the Group's bank loans of $2,990,750,000 as at 31 December 2017 (2016: $3,771,012,000).

16 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

The HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the Group's consolidated financial information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities for which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group does not intend to elect this designation option for any of the investments held on 1 January 2018 and will instead recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss. This change in policy will have no impact on the Group's net assets and total comprehensive income, but will increase volatility in profit or loss. Upon the initial adoption of HKFRS 9, fair value gain of $865,997,000 related to the available-for-sale investments is expected to be transferred from the available-for-sale investment revaluation reserve to retained profits at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on preliminary assessment, the Group expects that the application of the expected credit loss model will not have significant impact to the Group's consolidated financial statements.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of properties. Currently the Group's property development activities are principally carried out in the PRC. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of the PRC, the Group has assessed that its property sales contracts are unlikely to meet the criteria for recognising revenue over time and therefore is likely that revenue from property sales will continue to be recognised at a point in time.

(b) ***Significant financing component***

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

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are common when residential properties are marketed by the Group while the property is still under construction. In this situation, the Group may offer customers a discount compared to the sales price payable, provided the customers agree to pay the balance of the purchase price early.

In assessing whether such advance payments schemes include a significant financing component, the Group has considered the difference between the discounted price offered to those customers and the cash selling price, and the length of time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the properties) based on the typical arrangements entered into with the customers.

Where such advance payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest expense being recognised to reflect the effect of the financing benefit obtained from the customers during the period between the payment date and the completion date of legal assignment, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer. However, the actual extent of impact of this new accounting policy will also depend on whether and by how much such interest expense can be capitalised as part of the cost of the properties under HKAS 23, Borrowing costs. If the interest expense is to be capitalised until the construction work is completed, then this new accounting policy will not have a material impact on the Group's net profits during the construction period and gross profit from the sales of properties. The Group is in the process of assessing the implication of the significant financing component identified from the property sales on its capitalisation policy.

(c) ***Sales with a right of return***

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

(d) ***Cost of contract***

Currently, the Group expensed off the costs associated with obtaining the property sales contracts with customers. Under the requirement of HKFRS 15, incremental costs of obtaining a contract is eligible for capitalisation as deferred contract costs if they meet certain criteria. Based on the assessment of the directors, the amount of deferred contract costs at 1 January 2018 was insignificant to the Group.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Based on preliminary assessment, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $25,221,000 for properties, the majority of which is payable between 1 and 5 years after the reporting period. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. However, the directors consider the adoption of HKFRS 16 is unlikely to have a material effect on the Group's financial statements. A more detailed analysis will be performed to determine the actual impact.

17 REVIEW OF RESULTS

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor.

CHAIRMAN STATEMENT

The PRC real estate market has stepped into a stage of assets stabilization and retention. With the keynote showing in the government policy that "house is a place to live instead of a tool for speculation", the establishment of a long-term effective mechanism for real estate and a mechanism for co-development of housing lease and sales is accelerating, which has and will continue to have a far-reaching effect on the long-term development of the PRC real estate market.

In 2017, the development of real estate between the first-tier to second-tier cities and the third-tier to fourth-tier cities in the PRC further differentiated and showed various differences, having affected by different policies in different regions. With the implementation of a series of controlling measures including "purchase restrictions, credit restrictions, price restrictions and sales restrictions", the annual trading volume of properties in the first-tier and hot cities immensely reduced. In turn, attributable to destocking policies and the spillover effect of key cities, the trading volume in the third-tier and fourth-tier cities in the first half of the year strongly picked up, and despite of a slowdown in the second half of the year, showed some improvement for the year. As a first-tier city greatly affected by the said controlling measures, Shenzhen saw a slump in its land and properties supply, resulting in an obvious decrease in trading volume. Nevertheless, the price of Shenzhen real estate remained stable.

Driven by the aim of ensuring its shareholders' interests, the Group changed its operating strategies and adapted its sales structure to the complex market condition in a timely manner. As a result, the Company maintained a significant growth in the profit for the year.

2017 ANNUAL RESULTS

During the year, the Group achieved a revenue of HK$10,254.5 million, representing a decrease of 52.0% over the last year. Benefiting from the substantial profits from disposal of projects in the third-tier and fourth-tier cities, the Group achieved a net profit attributable to the equity shareholders of the Company of HK$4,950.9 million, representing an increase of 56.2% over the last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group, as well as gain on bargain purchases, provision for litigation and provision of land projects in the third-tier and fourth-tier cities for the last year, net profit attributable to the equity shareholders of the Company was HK$4,010.4 million for the year ended 31 December 2017, representing an increase of 53.4% over the last year. Basic earnings per share were HK63.64 cents, representing an increase of 50.2% over the last year. The Board recommends the payment of a final dividend of HK11.00 cents per share for the year of 2017 in cash, with a scrip dividend alternative. Together with the paid interim dividend of HK7.00 cents per share, the total dividend for the whole year will amount to HK18.00 cents per share.

Completion of Disposal of Projects in the Third-Tier and Fourth-Tier Cities

The Group has been committed to the disposal of projects in the third-tier and fourth-tier cities in recent years. During the year, seizing the opportunity of the pickup of real estate market in the third-tier and fourth-tier cities, the Group successfully disposed of its interests in five project companies located in Sanshui, Guangdong, Taizhou, Jiangsu, and Jiangyan, Jiangsu through public listing-for-sale process at a total consideration of RMB5.87 billion, recording earnings after tax of approximately HK$3.33 billion. During the year, the Group broadly completed the disinvestment of projects in the third-tier and fourth-tier cities, resulting in a decrease of its land reserves in the third-tier and fourth-tier cities from 49% to 32%, which further optimized its structure of land reserves.

Adjustment on Sales Strategies

In response to the government's stringent control over the market including purchase restriction and price restriction and after careful consideration, the Group decisively adapted its sales strategies to maximize the interests of its shareholders. It made adjustment on the sales strategies of Shum Yip Zhongcheng and Shum Yip UpperHills LOFT, two key projects of the Group, so as to maintain the long-term value of its core assets. Due to such initiative adjustment on sales strategies, the contracted sales volume of the Group decreased, recording RMB11.50 billion for the year.

Expansion of Quality Land Resources

The development of Guangdong-Hong Kong-Macao Big Bay Area has been formally upgraded to a national strategy. During the year, the Group has proactively sought project resources in the Big Bay Area and also opportunities in the first-tier and second-tier key cities. The Group acquired four pieces of land in Tuen Mun (Hong Kong), Nanhai Lishui (the intersectional area between Guangzhou and Foshan), and Nanjing Jiangning (Jiangsu) successively during the year, adding a gross floor area of over 250,000 square meters to its quality land bank, which has optimized its asset structure and helps to improve its sustainability in the future.

In Shenzhen, the Group accelerated its pace in urban redevelopment and was proved to be fruitful. During the year, the planning schemes for Chegongmiao and Bagualing redevelopment was approved by the Futian district government. The upfront work for the redevelopment of four old units in Bagualing has commenced, among which, the Shanglinyuan project has passed the redevelopment plan review. Benefiting from the successful Bi-city Biennale of Urbanism/Architecture organised by Nantou Old Town in Nanshan District, the Group obtained the qualification for redeveloping the center of High-tech Park in Nanshan District. During the year, the successful running of projects in each redevelopment area has paved a solid foundation for the Group to finalize more urban redevelopment projects in Shenzhen.

Propelling Capital Operation through Investment in Hengda Real Estate

During the year, the Group made a capital contribution of RMB5.50 billion to subscribe the equity interests of Hengda Real Estate Group Company Limited ("Hengda Real Estate"), accounting for approximately 2.0522% of the enlarged share capital of Hengda Real Estate (which was diluted to approximately 1.7626% after the capital contributions under the third round investments of Hengda Real Estate are made). According to the announcement of China Evergrande Group dated 3 October 2016, China Evergrande Group would list Hengda Real Estate in China as an A-share company through reorganization. Through the subscription, the Group became a second-round strategic investor of Hengda Real Estate before reorganization. Investment in Hengda Real Estate is expected to generate stable returns to the Group.

Grand Opening of Shum Yip UpperHills

On 18 January 2018, the commercial area of Shum Yip UpperHills, a commercial flagship under the Group, ushered in its grand opening. It is a business complex, including fashion, food and beverage, culture and entertainment, and interactive experience, catering for diversified needs of modern people. Approximately 40% of the tenants in Shum Yip UpperHills are new brands first launched in Shenzhen and Southern China, such as the first global three-in-one project combining flagship shop, restaurant and hotel of MUJI, the only direct-sale store of Sony in Shenzhen, the largest Porsche showroom in China, the premier experience center of Nike in Southern China, the first Emperor UA cinema in Shenzhen, Fnji, the first independent furniture brand in Shenzhen, the first TAIWANESE TEA HOUSE in Mainland China and various canteens with exotic charm, committed to providing fresh, diversified and fashionable consuming experience to customers of different ages.

Sound Financial Position Maintained

The Group continued to strengthen integrated fund planning and management and optimize its loan portfolio. As a result, the Group's finance costs continued to decrease and gearing ratio was maintained at a lower level. As of 31 December 2017, net gearing ratio (including all interest-bearing liabilities) of the Group was 49.9%.

We will continue to seek for high-quality assets, promote the transformation of its profit model and improve the Group's operational efficiency to create sustained and steady returns for each shareholder.

OUTLOOK

A Long-term Effective Mechanism for Real Estate to be Gradually Established

The establishment of a long-term effective mechanism for real estate and a mechanism for co-development of housing lease and sales has been a keynote of real estate policy. Such change of policy keynote has greatly affected the development pattern and structure in real estate market. The statement that "house is a place to live instead of a tool for speculation" is an inexorable law as the industry develops to a stage of assets stabilization and retention. Only industry reorganization and positive adjustment under the guidance of macro-policy could ensure national financial security and long-term healthy and sustainable development of the real estate industry.

We expect that the controlling measures on real estate industry in the first-tier cities will continue for some time in the future, allowing more time to establish and improve the long-term effective mechanism for real estate. With the improvement of the housing security system of co-development of housing lease and sales, the availability of various financial instruments, the successive implementation of supporting policies in favour of the development of real estate leasing market and the acceleration in the supply of land for leasing purpose, the real estate leasing market, as a key breakthrough for long-term effective mechanism, will play more and more important roles and see a golden time of development.

Further Development of Guangdong-Hong Kong-Macao Big Bay Area and the Improving Urban Competitiveness with Shenzhen-Hong Kong Cooperation

The development of Guangdong-Hong Kong-Macao Big Bay Area has been upgraded to a national strategy, which is putting into effect formally. Cooperation between Shenzhen and Hong Kong is the core of the Big Bay Area strategy. With strength in technology innovation, Shenzhen stands out itself as "a core area of technology innovation". On the other hand, Hong Kong will lead the internationalization of the Guangdong-Hong Kong-Macao Big Bay Area by virtue of its position as a free port, attractiveness to global talents, highly-developed financial industry and high-end service industry. Once the Big Bay Area takes initial shape, the economy generated from the heartland on the east bank of the Big Bay Area, covering Hong Kong, Shenzhen, Dongguan and Guangzhou, will amount to approximately 70% of the overall economy of the Big Bay Area. Upon completion of several key traffic facilities, including the Hong Kong-Zhuhai-Macao Bridge, the Shenzhen-Zhongshan Channel, the Second Humen Bridge and the Shenzhen-Maoming Railway Bridge, new historic opportunities for development will emerge in the west bank of the Big Bay Area.

With the implementation of the Guangdong-Hong Kong-Macao Big Bay Area Strategy, Shenzhen will further stand out itself as "a core area of technology innovation". Its industry system, competitiveness and attractiveness to talents will be further improved and with stronger real estate demands for residential, office and commercial purposes. Meanwhile, due to scarce land resources, land available for construction in Shenzhen has gradually decreased and there are very limited land available in open market. Along with slow supply of land released from urban redevelopment projects, the supply-demand imbalance becomes a long-existing condition in the real estate market in Shenzhen. Given the sustained establishment and improvement of the mechanism for co-development of housing lease and sales will diversify the real estate market and product structure in Shenzhen, we are very confident in the value increase in Shenzhen's quality assets.

Adapt to New Condition to Intensify Development in Shenzhen, Focus on Big Bay Area and Introduce New Mode of Land Acquisition

In current market condition, acquisition of quality land has been more difficult and with higher costs and risks year by year. It is hardly possible to address land scarcity in a short to medium term. Acquisition of land resources in Shenzhen in traditional mode encounters "bottleneck" problem and needs to make a breakthrough. In the future, the Group will secure the development opportunity arising from the Guangdong-Hong Kong-Macao Big Bay Area Strategy, and, under the background of cooperation between Shenzhen and Hong Kong, give full play of its advantages to concentrate on the real estate market of Shenzhen while focusing on the Guangdong-Hong Kong-Macao Big Bay Area, and endeavor to take up a share in those Big Bay Area city groups including Shenzhen-Hong Kong, Guangzhou-Foshan and Dongguan-Huizhou.

On the basis of further deepened cooperation with Shum Yip Group, the ultimate holding company of the Company, and securing resources for urban redevelopment projects, the Group will innovate the mode of resource acquisition, seize the opportunities arising from the development of Hetao and Qianhai as well as its advantage as a first-mover in urban redevelopment. It will put more efforts in urban redevelopment, especially facilitating the renewal work of each urban zone. By the way of restructuring and upgrading the economy of each urban zone, the Group will also cooperate with the government, maximize the strength of Shenzhen-Hong Kong cooperation and acquire more high-quality project resources to realize comprehensive income.

Keep Abreast of the Tendency to Deepen transformation, Expand Investment Property Portfolio and Strengthen the Construction of Long-term Rental Apartments

As the long-term effective mechanism for real estate and the mechanism for co-development of housing lease and sales establish and improve in the market, lease is expected to weigh more in the real estate market. Therefore, taking a share in the lease market becomes one of the targets for real estate enterprises to make transformation. Earlier, the Group has initially entered into the long-term apartment lease market by launching the "Room Cards for Youth Scheme" together with some authorities in Shenzhen. LM (檸盟), one of the brands launched by the Group, was widely recognised and received by Shenzhen government and market. In 2018, the Group will continue to work with its ultimate holding company, Shum Yip Group, to launch four long-term rental apartment brands, named Shum Yip LM (檸盟), Youju (有居), Shangju (上居), Yiju (頤居) to provide more options for people with different residential needs.

The Group will insist on the strategy of "developing, sale, holding and management equally" and expand high-quality investment properties for commercial and office use through optimization of portfolio, management, pricing system and services, thus further improving asset quality and returns. Meanwhile, supported by its house stock and newly completed properties, the Group will secure the opportunity from housing lease market, establish long-term rental apartment brands, make flexible use of financial instruments, support the development of long-term apartment rental business and seek for new sustainable development opportunities.

Deepen State-owned Enterprise Reform and Propel Incentive Mechanism Reform

During the year, the government issued a notice on implementation of mixed-ownership reform throughout Shenzhen. In quick response, the Group will strive to diversify the subject of title at the level of property-owned enterprises and project companies gradually and structurally. It will improve the operating efficiency of both enterprises and projects by introducing major strategic and long-term shareholders and implementing core management and key employee stock ownership. Besides, the Group will propel incentive mechanism reform by establishing a hierarchical incentive mechanism, supplemented with restraining and supervising mechanism in order to attract various professionals, improve employee engagement and boost enterprise vitality.

Adjust Product Structure and Maintain Reasonable Growth

As a first-tier city, Shenzhen enjoys strong economic fundamentals and a promising future for development. Depending on market and policy condition, the Group will adjust its product structure, particularly, increasing office and apartment products not affected by purchase and price restriction, and promoting project sales in second-tier and third-tier cities, and keep sound cash flows and stable operation while striving to preserve asset values. In 2018, the Group has annual saleable value of RMB31.7 billion, with a target to sell RMB15.0 billion, increasing approximately 30% over the actual sales last year. The Group's key projects include Shum Yip Dongling, Shum Yip Zhongcheng (office and apartments) and Taifu Square.

Sticking to the vision of being a "Leader in Value Creation for City Spaces", the Group will focus on the Guangdong-Hong Kong-Macao Big Bay Area, intensify its development in Shenzhen and finalize the development strategies in the first-tier and to second-tier cities. In the future, we will maintain a sound and healthy growth in development and sales volume, optimize investment property portfolio comprising properties for commercial, office and long-term rental uses, seek for opportunities of long-term apartment rental, establish operating and service platforms with core competitiveness, give full play of its professional advantage and continuously improve the value of urban spaces.

I believe, through unremitting efforts, the Group will be able to operate as a going concern and in a healthy way, achieve a balance between scale expansion and value enhancement and constantly optimize the structure of land reserves and assets. We will spur with long accumulation on a well-grounded strategy for transformation and upgrading in branding to achieve a sound and sustainable development of the Company and create better benefits and return for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

In 2017, the first-tier and hot cities intensively introduced control measures resulting in decline in real estate trading volume for the year. Under the continuous impact of the tightening control policies for the real estate in Shenzhen, the supply of land and houses shrank notably. As a result, trading volume of new houses dropped significantly but the prices remained stable as strong demand from buyers persisted. Benefiting from the destocking policy and the spillover effect across the central cities, the third-tier and fourth-tier cities saw a pickup both in terms of trading volumes and prices.

The real estate market in the PRC has entered "a period of stocking up". As the building of long-term effective mechanism and the housing system that encourages both housing purchase and residential leasing gained momentum, the development of residential leasing market has become an important part of the supply-side structural reform for the real estate market.

Facing the stringent control policies and to better fit market conditions, the Group actively adapted its strategies to market trends by proactively responding to the national policy of "encouraging renting and purchase simultaneously". On one hand, the Group transformed part of its projects into long-term rental apartments, with a view to increasing the value of the core assets through long-term operations. On the other hand, it took advantage of the prime time of market recovery and proactively promoted its property sales, both in sub-divided units or en bloc, for the projects in the third- tier and fourth-tier cities, which brought about satisfactory results with a substantial increase in profit.

During the year, the Group achieved a revenue of approximately HK$10,254.5 million, representing a decrease of 52.0% over the last year. Gross profit margin was 34.6%, representing a decrease of approximately 4.1 percentage points over the last year; gross profit was HK$3,551.4 million, representing a decrease of 57.1% over the last year; benefiting from the substantial profits from disposal of projects in the third-tier and fourth-tier cities, the Group achieved a net profit attributable to equity shareholders of the Company of HK$4,950.9 million, representing an increase of 56.2% over the last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group, as well as gain on bargain purchases, provision for litigation and provision of land projects in the third-tier and fourth-tier cities for the last year, net profit attributable to the equity shareholders of the Company was HK$4,010.4 million for the year ended 31 December 2017, representing an increase of 53.4% over the last year.

Property Development Business

Affected by the stringent control policies, the trading volume of new houses in Shenzhen market saw a significant decrease. The Group decided to actively adjust its sales plan for Shum Yip Zhongcheng and Shum Yip UpperHills LOFT in order to ensure maximum benefits for shareholders. The adjustment has had a certain impact on the achievement of contracted sales for 2017, thus sales revenues booked for the period decreased.

Sales Revenue Booked

During the year, the Group recorded property sales booked of approximately 482,000 square meters (excluding the interests attributable to the Group in its three major associates and joint venture), representing a decrease of 47.7% over the last year, and achieved a net revenue in property sales of approximately RMB5,531.8 million (equivalent to HK$6,381.5 million) (net of value-added tax), representing a decrease of 64.2% over the last year. The gross profit margin of property development and sales was 39.3%, representing a decrease of 2.0 percentage points over the same period of last year. The percentage of Shenzhen projects in the sales revenue booked during the year was 53.4%. During the year, the average gross profit margin for Shenzhen projects of the Group was approximately 46.4%, whereas the average gross profit margin in other cities was approximately 31.7%.

Property Sales Booked in 2017

Property Name	Type	Area Booked (sq.m.)	Net Sales (RMB million)	Unit Price (RMB/ sq.m.)
Rui Cheng	Residential	90,708.42	442.88	4,882.46
Garden Hill	Residential	121,734.51	607.67	4,991.76
Wanlin Lake	Residential/shop	6,211.76	40.62	6,539.21
Splendid City	Residential	19,450.75	80.16	4,121.18
Euro-view Garden	Shop	452.87	6.00	13,248.84
Noble Times	Residential/shop	240.32	5.24	21,804.26
Shum Yip City	Residential	5,466.85	51.77	9,469.80
Yundonghai	Villa	2,080.00	16.57	7,966.35
Saina Bay	Residential/shop/villa	10,837.14	54.44	5,023.47
Jiangyue Bay	Residential/shop	7,115.20	172.69	24,270.58
Guanlan Rose Pavilion	Residential/shop/office building	27,277.26	548.66	20,114.19
Nanhu Rose Bay	Residential/shop/villa	3,858.93	75.15	19,474.31
Yihu Rose Garden	Residential/shop	13,153.78	63.76	4,847.28
Changzhou Shum Yip Huafu	Residential	39,704.71	275.47	6,937.97
Ma'anshan Shum Yip Huafu	Residential	85,362.07	495.09	5,799.88
UpperHills	Residential/office building	38,149.94	2,312.74	60,622.38
Royal Spring Garden	Villa	10,129.34	118.50	11,698.69
Parking place sales*	Parking place	–	164.37	–
Total		**481,933.85**	**5,531.78**	**–**

Note:* 1,208 parking lots were sold.

Contracted Sales

During the year, the Group realized contracted sales area of approximately 564,000 square meters and contracted sales income of approximately RMB11.5 billion, representing a decrease of approximately 40% over the last year. The average price per square meter was RMB20,408.

In 2017, the stringent control policies continued to prevail in the Shenzhen market, to better fit the market conditions and to actively respond to the national policy for the establishment of a housing system that encourages "both renting and selling", the Group promptly adapted its sales strategy. It postponed the sales of Shum Yip UpperHills LOFT. In addition, it changed the residential part of the Shum Yip Zhongcheng project that was originally planned to be for sale into a project for long-term rental, with a view to increasing the value of the core assets through long-term operations. The active adjustment of sales strategy has had an impact on the achievement of contracted sales for 2017. The Group will continue to adhere to the principle of maximizing interests of shareholders so as to ensure the long-term value of premium assets.

Contracted Sales in 2017

Project Name	City	Type	Sales Area (sq.m.)	Sales (RMB million)	Unit Price (RMB/ sq.m.)
Tanglang City*	Shenzhen	Complex	99,144	5,359	54,049
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	224,832	1,591	7,077
UpperHills	Shenzhen	Complex	7,365	856	116,225
Rui Cheng	Changsha	Residential	61,601	396	6,427
Changzhou Shum Yip Huafu	Changzhou	Residential	24,867	261	10,477
Shum Yip Dongling	Shenzhen	Complex	14,429	992	68,722
Shum Yip City	Foshan	Residential	11,405	214	18,746
Jiangyue Bay	Guangzhou	Residential	3,505	138	39,455
Royal Spring Garden	Chaohu	Residential	4,863	70	14,308
Guanlan Rose Garden	Shenzhen	Residential	11,418	375	32,841
Garden Hill	Huizhou	Residential	25,524	235	9,221
Splendid City	Taizhou	Residential	18,062	82	4,512
Wanlin Lake	Huizhou	Residential	18,273	209	11,444
Nanhu Rose Bay	Wuhan	Residential	3,890	142	36,404
Euro-view Garden	Dongguan	Residential	628	31	49,220
Yihu Rose Garden	Chengdu	Residential	18,206	123	6,766
Saina Bay	Heyuan	Residential	2,356	22	9,529
Qingshuihe Auto Park	Shenzhen	Warehouse/ Commercial	9,403	374	39,766
Gaobangshan No.1	Huizhou	Residential	4,172	40	9,585
Total			**563,943**	**11,510**	**20,408**

Note:* The project was co-developed with Shenzhen Metro Group, as to 50% owned by the Group, and it is accounted using equity method.

Project Development

During the year, the Group had a new construction area of 601,030 square meters, and a completed area of 615,402 square meters.

New Construction Projects in 2017

Project Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Ma'anshan Shum Yip Huafu Phase 2.1 and 2.2	Ma'anshan	Residential	347,418	259,444
Qingshuihe Auto Park Phase 4	Shenzhen	Warehouse/ Commercial	42,000	28,000
Nanhu Rose Bay Phase 4	Wuhan	Residential	132,570	92,865
Yihu Rose Garden Phase 1.2-Longxi	Chengdu	Residential	67,221	50,124
Chaohu South Phase 1	Chaohu	Residential	5,415	5,063
Chaohu North Phase 4.2	Chaohu	Residential	6,406	6,248
Total			**601,030**	**441,744**

Completed Projects in 2017

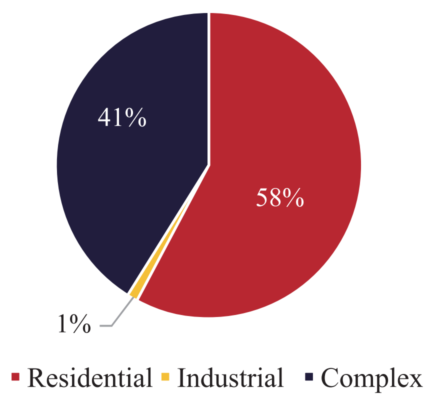
Project Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Changzhou Shum Yip Huafu Phase 2	Changzhou	Residential	125,939	88,274
Building 5&6 of Yihu Rose Garden Phase 1.1	Chengdu	Residential	17,761	13,860
Chaohu North Phase 3	Chaohu	Residential	5,721	5,580
Chaohu North Phase 4.1	Chaohu	Residential	4,853	4,653
Rui Cheng Phase 2.2	Changsha	Residential	73,757	73,363
Garden Hill Phase 3.1.1A (building 2 and 3/basement)	Huizhou	Residential	79,847	37,153
Garden Hill Phase 3.1.2 (building 6-9)	Huizhou	Residential	127,593	93,239
Garden Hill Phase 3.1.1B (building 1, 4 and 5)	Huizhou	Residential	50,909	50,012
Shum Yip City Phase 3.2	Foshan	Residential	129,022	101,904
Total			**615,402**	**468,038**

Land Reserves

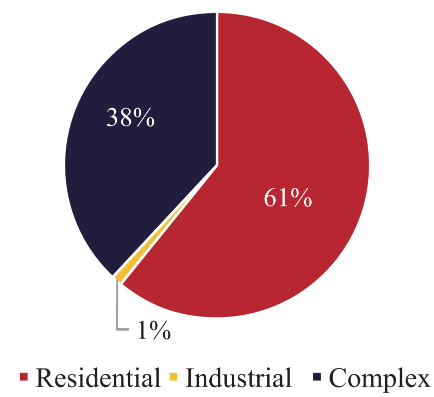
As of the end of December 2017, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 6.29 million square meters (of which the Group was interested in 5.63 million square meters), and a capacity building area of 4.76 million square meters (of which the Group was interested in 4.22 million square meters), of which, the projects under construction had a total planned GFA of approximately 3.49 million square meters (of which the Group was interested in 3.16 million square meters) and a capacity building area of 2.50 million square meters (of which the Group was interested in 2.26 million square meters).

Distribution of Land Reserves (As at 31 December 2017)

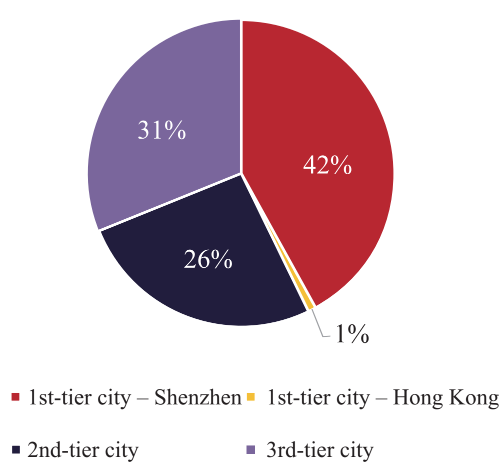
By type – Planned GFA notes 1 and 3
(sq.m.)



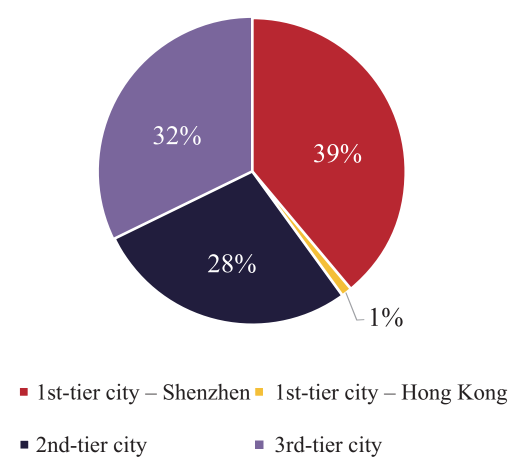
By type – Capacity Building Area notes 2 and 3
(sq.m.)



By City – Planned GFA notes 1 and 3
(sq.m.)



By City – Capacity Building Area notes 2 and 3
(sq.m.)



Notes:

1. Planned GFA: the sum of the gross floor area of all the floors above and under the ground of a single building or buildings within the scope of the land for construction.

2. Capacity building area: the sum of the gross floor area which is used in the calculation of the plot ratio within the land for construction.

3. Excluded the sold lands in Sanshui and Taizhou.

New Land Reserves

The development of Guangdong-Hong Kong-Macao Big Bay Area has been formally upgraded to a national strategy. During the year, the Group has proactively sought for project resources in the area and focused on opportunities to invest in quality projects in the first-tier and second-tier key cities.

On 22 June 2017, Shum King Company Limited, a joint venture owned as to 50% equity interests respectively by each of the Group and Road King Infrastructure Limited, successfully acquired the Tuen Mun Town Lot No.520 in Hong Kong (the "Land") at a consideration of HK$3.17 billion. Located at Sham Tseng/Castle Peak Road (Tuen Mun) in Hong Kong, the Land covers an area of approximately 12,205 square meters (equivalent to 131,373 square feet) with a maximum gross floor area of 43,938 square meters (equivalent to 472,944 square feet). The Land was designated to be developed into a private residential property with a term of ownership for 50 years.

On 26 December 2017, the Group successfully acquired a parcel of land in Lishui, Nanhai District, Foshan City, Guangdong Province at a consideration of RMB913 million. Located at the prime lot where Guangzhou borders upon Foshan, the project enjoys a very convenient traffic network. It covers an area of approximately 20,000 square meters, with capacity building area of approximately 59,600 square meters mainly for residential purpose and another supporting area of 7,000 square meters for talent housing construction. Excluding the supporting area, planned gross floor it is equivalent to an unit floor area price of approximately RMB17,600/sq.m.

On 27 and 29 December 2017, the Group succeeded in bidding for two parcels of land in Nanjing, namely Lot G72 and Lot G78, at a price of RMB1.06 billion and RMB1.2 billion respectively. Located at Shangfang, Jiangning District, Nanjing, Lot G72 enjoys a surrounding area with mature educational, medical and natural resources. The project covers an area of 34,623 square meters, with capacity building area of approximately 75,824 square meters mainly for residential purpose, which is equivalent to a price of approximately RMB13,980/sq.m. Lot G78 is located at the Qilin Street, Jiangning District, Nanjing which is in Qinglong District and is close to the Xianlin University Town and well-served by developed subway network. The project covers an area of approximately 31,304 square meters, with capacity building area of approximately 71,999 square meters mainly for residential purpose, which is equivalent to a planned unit floor area price of approximately RMB16,667/sq.m.

Through the successful acquisition of the above land resources, the Company expanded it quality land banks in the first-tier and second-tier cities as well as the Guangdong-Hong Kong-Macao Big Bay Area, which in turn provided a strong support for future sustainable development. The structure of the Group's land reserve was further optimized, with the proportion of the first-tier and second-tier cities land reserve accounting for 68% and that of the Big Bay Area accounting for 56%.

Completion of Disposal of Projects in the Third-Tier and Fourth-Tier Cities

The Group has been committed to promoting the disposal of projects in the third-tier and fourth-tier cities for recent years. During the year, on the momentum of real estate recovery in the third-tier and fourth-tier cities, the Group substantially completed the disinvestment of projects in such lower-tier cities and generated a strong return.

On 24 May 2017, the Group successfully disposed of its interests in three project companies in Sanshui, Guangdong (holding lands for low-density residential and commercial use with an undeveloped land area of 1,073 mu and developed but unsold land with a gross floor area of approximately 64,996 square meters) and another project company in Taizhou, Jiangsu (holding lands for commercial and residential use with an undeveloped land area of 275 mu, an under construction area of 105,563 square meters, and completed but unsold residential and commercial properties of approximately 10,394 square meters in total) through public listing-for-sale at Shenzhen United Property and Share Rights Exchange and recorded net after-tax gains of approximately HK$3.14 billion.

On 26 May 2017, the Group successfully disposed of its interests in a project company in Taizhou, Jiangsu (holding lands for residential use of 159 mu in Jiangyan District, Taizhou) through public listing-for-sale at a consideration of RMB361.5 million, representing a premium of approximately 58% over the listing price of RMB229.0 million, and recorded net after-tax gains of approximately HK$190 million.

Through the above transaction, the Group generated a strong return for its shareholders and further optimized its land reserve structure. During the year, the proportion of its land reserve in third- tier and fourth-tier cities decreased from 49% to 32%.

Proactive Expansion of New Resources in Shenzhen and Other First-tier and Second-tier Cities

Together with Shum Yip Group, the Group owns the qualification of a general coordinator for certain redevelopment projects in urban zones of Shenzhen with an area of nearly 10 square kilometers, mainly including Bagualing and Chegongmiao in Futian District, the centre of High-tech Park in Nanshan District and the Nantou Old Town in Nanshan District.

During the year, positive results have been achieved in all aspects of the redevelopment work of each urban zone. The planning schemes for the redevelopment of Chegongmiao and Bagualing were approved by the Government of Futian District. The upfront work for the redevelopment of four old units in Bagualing has commenced. Among which, the Shanglinyuan project has been audited and included in the urban redevelopment plan. Benefiting from the successful Bi-City Biennale of Urbanism/Architecture organised by Nantou Old Town in Nanshan District, the Group obtained qualification for redeveloping the centre of High-tech Park in Nanshan District. During the year, the successful running of projects in each urban zone has paved a solid foundation for the Group to finalize more urban redevelopment projects in Shenzhen.

Property Investment

As at 31 December 2017, the Group has investment properties of over 1.14 million square meters, 85.6% of which are located in Shenzhen. During the year, the Group recorded rental income of approximately HK$929.8 million, representing an increase of approximately 21.6% over the last year. The gross profit margin of property investment business was approximately 78.8%, representing a decrease of 6.1 percentage points over the last year. The Group recorded a revaluation gain in its investment property portfolio of HK$1,161.7 million for the year. Revenue and scale of the Group's investment properties are expected to increase significantly with the completion of Shum Yip UpperHills and Taifu Square projects in the future.

Long-term Rental Apartments

Earlier, the Group has initially entered into the long-term apartment lease market by launching the "Room Cards for Youth Scheme" together with relevant authorities in Shenzhen. LM (檸盟), one of the brands launched by the Group, was widely recognised and received by Shenzhen government and market. The Group will continue to work with its ultimate holding company Shum Yip Group to launch four long-term rental apartment brands, named Shum Yip LM (檸盟), Youju (有居), Shangju (上居) and Yiju (頤居) to provide more options to people with different residential needs. Residential component of the Group's Shum Yip Zhongcheng project and certain units of Hong Kong Tuen Mun project will be launched to the market as a product line of "Shum Yip Shangju" (深業上居), highlighting the features of elite, taste and leisure.

Grand Opening of Shum Yip UpperHills

On 18 January 2018, the commercial area of Shum Yip UpperHills, a commercial flagship project of the Group, ushered in its grand opening. It is the first large-scale urban complex that integrates various shopping amenities, industrial research and development center, culture and creativity LOFT, premium business apartments and top-notch luxury hotel in Shenzhen , catering for diversified needs of modern lifestyle.

Approximately 40% of the tenants in Shum Yip UpperHills are new brands launched in Shenzhen and Southern China for the first time, such as the first global three-in-one project combining flagship shop, restaurant and hotel of MUJI, the first Mandarin Oriental in Shenzhen, the only direct-sale store of Sony in Shenzhen, the largest Porsche showroom in China, the premier experience center of Nike in Southern China and the first Emperor UA Cinema in Shenzhen, committed to providing fresh, diversified and fashionable consuming experience to different generations of customers.

Property Management

The Group has its own property management teams who are committed to become "the most reliable property service integrator" by improving services, supporting the development of real estate business and helping to enhance the corporate brand. As of the end of the year, the total area of properties under the Group's management was approximately 51.76 million square meters, covering a variety of property types such as government offices, office buildings, residential estates, villas, and science and technology parks, which are mainly located in the Pearl River and Yangtze River deltas as well as the central region. During the year, the property management business contributed a revenue of approximately HK$1,820.4 million to the Group, representing an increase of 16.9% over the last year.

Hotel Operations

The Group owns six hotels. Those in operation are Suzhou Marriott Hotel (with 293 guest rooms), Chaohu Shumyip Bantang Hot Spring Hotel (with 20 spring villas) and Holiday Inn Resort Chaohu Hot Spring (with 203 guest rooms). Muji Hotel (with 79 guest rooms) in Shum Yip UpperHills, Shenzhen has completed its construction and commenced operation on 8 January 2018. Those under construction are Mandarin Oriental Shenzhen (with 190 guest rooms planned) and Tanglang City Project Hotel in Shenzhen (with 200 guest rooms planned), which is co-developed with Shenzhen Metro Group.

During the year, the three hotels in operation recorded a revenue (included under other operating segment) of approximately HK$181.2 million, representing an increase of 8.1% over the last year.

Manufacturing Business

The Group's manufacturing business mainly represents the LCD manufacturing and metal materials processing and other businesses which have been held by the companies under the Group over the years. During the year, the manufacturing business recorded operating income of approximately HK$325.6 million, representing an increase of 9.2% over the last year.

Performance of Joint Ventures

During the year, the performance of Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) was flat with the last year. It made a net profit contribution of HK$1.3 million to the Group for the year. The principal activity of the company is to assist local government in primary land development and the local government did not make any arrangement to launch such lands during the year.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of approximately HK$110.8 million for the year, representing a decrease of 5.3% over the last year. The company and Shenzhen Metro Group jointly developed the Shenzhen's Tanglang City Project.

Shenzhen Tianan Cyber Park (Group) Co., Ltd. made a net profit contribution of HK$298.3 million to the Group, representing a decrease of 45.0% over the last year.

Performance of Associates

During the year, the associates invested by the Group performed as expected. Of which, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK$525.8 million to the Group, representing an increase of 53.8% over the last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$69.1 million to the Group, compared with a net profit contribution of HK$137.2 million for the same period of last year.

Propelling Capital Operation through Investment in Hengda Real Estate

On 31 May 2017, the Company, through Ma'anshan Maowen Technology Industrial Park Co., Ltd. ("Ma'anshan Maowen"), a wholly owned subsidiary of the Company, entered into an investment agreement with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate") and Hengda Real Estate Group Company Limited ("Hengda Real Estate") (both being subsidiaries of China Evergrande Group) to contribute an amount of RMB5.5 billion to the capital of Hengda Real Estate in exchange for the equity interests in Hengda Real Estate, which accounted for 2.0522% of the enlarged share capital of Hengda Real Estate (which was diluted to approximately 1.7626% after the capital contribution under the third round investments of Hengda Real Estate are made). According to the announcement of China Evergrande Group dated 3 October 2016, China Evergrande Group would list its real estate business in China as an A-share company through reorganization. Through the investment, the Group would become a strategic investor of Hengda Real Estate before the reorganization.

The principal terms of the investment agreement (as amended by the supplementary agreement) include: (i) profit distribution undertaking: Kailong Real Estate and Hengda Real Estate have undertaken that the net profit of Hengda Real Estate for the years of 2017, 2018 and 2019 shall not be less than RMB24.3 billion, RMB50.0 billion and RMB55.0 billion, respectively. During the performance undertaking period, Hengda Real Estate will distribute at least 68% of its net profit to its shareholders as cash dividends until the signing of the reorganization agreement. Upon reorganization, Kailong Real Estate would recommend that at least 68% of a listed company's distributable net profit shall be distributed as dividends to its shareholders; (ii) exit rights: if the above-mentioned proposed reorganization is not completed by 31 January 2020, Ma'anshan Maowen will have the right to request Kailong Real Estate or Mr. Hui Ka Yan, the controlling shareholder of China Evergrande Group, buy back the entire equity interests in Hengda Real Estate held by it at its original investment cost or request Kailong Real Estate to transfer 50% of the equity interests then held by it in Hengda Real Estate to Ma'anshan Maowen (excluding any additional equity interests acquired by Ma'anshan Maowen after the date of the investment agreement) at nil consideration as compensation; and (iii) lock-up undertaking: if the abovementioned proposed reorganization is completed, Ma'anshan Maowen will hold shares issued by an A-share listed company for the acquisition of the equity interests in Hengda Real Estate. Ma'anshan Maowen is prohibited from transferring the said shares of listed company within the lock-up period stipulated by the China Securities Regulation Commission, and Kailong Real Estate has also undertaken that it will not, until the first anniversary of the expiry date of the lock-up period of the strategic investor, transfer the shares issued by the listed company for the acquisition of the equity interests in Hengda Real Estate.

Investment in Hengda Real Estate is in line with the Company's strategy of intensifying the development in Shenzhen and beneficial for strengthening mutual cooperation at project level. According to Hengda Real Estate's performance undertaking, profit distribution undertaking and exit terms, such equity investment of the Company is expected to generate solid returns.

Financing

During the year, the Group focused on integrated financial management to safeguard its business development.

As at 31 December 2017, the Group's total bank and other borrowings amounted to HK$22,903.2 million (31 December 2016: HK$19,757.2 million), of which HK$17,964.9 million were floating-rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK$14,765.6 million, representing approximately 64.5% of the total borrowings, and short-term loans were HK$8,137.6 million, representing approximately 35.5% of the total borrowings. Borrowings from Hong Kong and overseas amounted to HK$12,606.2 million, representing 55.0% of the total borrowings, and the remaining were borrowings from Mainland China, representing 45.0% of the total borrowings. During the year, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.6% per annum.

As at 31 December 2017, the Group's cash balance (including restricted cash) was HK$12,984.1 million (31 December 2016: HK$12,063.7 million), of which approximately 92.6% and 7.4% were denominated in Renminbi and other currencies (mainly in US$ and HK$) respectively.

The Group's assets are mainly denominated in Renminbi. 45.0% of the bank and other borrowings are denominated in Renminbi, while 55.0% are denominated in HK$ and US$. HK$ is adopted as the reporting currency in the Group's financial statements. The effect of the fluctuation of RMB exchange rate on the Group's finance will be mainly reflected in the volatility of the asset and earnings denominated in Renminbi against HK$, the reporting currency. The Group will closely monitor and proactively avert foreign exchange risk through various ways.

As at 31 December 2017, the Group had net assets (excluding non-controlling interests) of HK$41,468.2 million (31 December 2016: HK$32,810.8 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 23.9% and the net gearing ratio with the liabilities including loan from Shum Yip Group and all other interest-bearing liabilities was 49.9%. The gross gearing ratio (being the ratio of total liabilities over total assets) was 61.5%.

Financial Position

HK$ million	**As at 31 December 2017**	As at 31 December 2016
Bank and other borrowings	**22,903.2**	19,757.2
– Long-term borrowings	**14,765.6**	14,468.8
– Short-term borrowings	**8,137.6**	5,288.5
Due to the ultimate holding company	**5,107.3**	2,850.9
Cash (including restricted cash)	**12,984.1**	12,063.7
Net gearing ratio with the liabilities including bank and other borrowings only	**23.9%**	23.4%
Net gearing ratio with the liabilities including all interest-bearing liabilities	**49.9%**	38.9%

Other Operating Expenses

During the year, the Group's other operating expenses were approximately HK$369.0 million, a decrease of 77.7% over the last year. The year-on-year decline in other operating expenses for this year was significant as other operating expenses for the same period last year included provisions for litigation and provision for impairment of projects in the third-tier and fourth-tier cities totaling approximately HK$1,496.0 million. The aforesaid provisions were one-off event and no relevant provisions have been made this year.

Land Appreciation Tax ("LAT")

During the year, the Group recorded a current provision of LAT of HK$810.4 million, representing 7.9% of turnover. The LAT mainly arose from Shum Yip UpperHills and Rui Cheng. The booked gross profit margin of Shum Yip UpperHills and Rui Cheng were 46.2% and 56.8% respectively. As the LAT rate is progressive, the higher the profitability of a project is, the higher LAT rate and the LAT amount is needed to be borne.

Pledge of Assets and Contingent Liabilities

As at 31 December 2017, the Group had total loans of HK$402.8 million (31 December 2016: HK$638.2 million) that were pledged with assets (for details, see note 15).

As at 31 December 2017, the Group had provided guarantees to a maximum of HK$6,556.1 million (31 December 2016: HK$7,869.3 million) to banks for housing loans extended by the banks to the purchasers of the Group's properties (for details, see note 14).

Update on Litigation Involving Wuhan Terra

Shum Yip Terra (Holdings) Company Limited ("Terra Company"), a 75.05%-owned subsidiary of the Company, and its wholly-owned subsidiary, Wuhan Shum Yip Terra Property Development Company Limited ("Wuhan Terra") was prosecuted for the offences of bribery by organization (單位行賄罪) and offering bribes to organization (對單位行賄罪) as its Wuhan project was implicated in the corruption case(s) involving the local government officials. The People's Court of Jianli County of Hubei Province handed down its first-instance judgment in respect of the litigation on 28 September 2017. Wuhan Terra and the three ex-members of management of Wuhan Terra were found guilty and were convicted of the offence of bribery by organization. Wuhan Terra was ordered to pay a total of RMB557,413,000 (an illegal gain of RMB542,413,000 and a fine of RMB15,000,000), and each of the three ex-members of management of Wuhan Terra was sentenced to imprisonment for one and a half year.

Wuhan Terra has appealed against the judgment, and was officially served with criminal ruling of second instance on 7 December 2017 by the Court of Jianli County entrusted by Jingzhou Intermediate People's Court, determining that "the appeal was rejected and the original judgment was upheld". On 25 January 2018, illegal gain and fine amounting to RMB553,914,000 was drawn from the frozen account of Wuhan Terra by the Court of Jianli County according to the judgment.

Wuhan Terra, having considered the judgment, has decided to appeal against the judgment and is preparing the appeal proposal.

As a provision in the amount of RMB542,413,000 had already been made in Group's accounts for the year ended 31 December 2016, the outcome of the litigation will not have any material adverse effect on the financial position of the Group. The Company believes that the aforementioned matter is an individual incident, and will not have any material effect on the assets, financials and operations of the Group as a whole.

Employees and Remuneration Policy

As at 31 December 2017, the Group employed 18,867 employees (2016: 18,643) of whom 40 were stationed in Hong Kong (mainly managerial and finance related personnel), and the rest were in Mainland China. The total remuneration for the year ended 31 December 2017 (excluding remuneration of the Directors) amounted to approximately HK$1,615.8 million (2016: HK$1,307.5 million).

Employee benefits and bonuses are based on their individual performance, the Group's profit condition, benefit level of the industry and the current market condition. The remuneration packages are reviewed on an annual basis to ensure internal equity and its competitiveness in the market. In driving performance, we also grant share options, under the share option scheme of the Group, to employees based on individual performance and the results of the Group.

DIVIDEND

The Board recommends the payment of a final dividend of HK11.00 cents per share for the year ended 31 December 2017 (2016: a final dividend of HK10.00 cents per share and a special dividend of HK5.00 cents per share), which subject to the approval by the shareholders at the forthcoming annual general meeting of the Company ("Annual General Meeting"), are payable on or about Friday, 17 August 2018 to shareholders whose names appear on the register of members of the Company on Friday, 8 June 2018. Together with the interim dividend of HK7.00 cents per share which was paid on 20 November 2017, the total dividend for the year ended 31 December 2017 amounts to HK18.00 cents per share (2016: HK22.00 cents per share).

The proposed final dividend will be paid in cash but shareholders will be given an option to receive new fully paid shares of the Company ("scrip shares") in lieu of cash, or partly in cash and partly in the form of scrip shares (the "Scrip Dividend Scheme").

The Scrip Dividend Scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. A circular containing the details of the Scrip Dividend Scheme together with relevant election form will be sent to shareholders on or around Tuesday, 17 July 2018.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Academy Room, 1st Floor, InterContinental Grand Stanford Hong Kong, 70 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Thursday, 31 May 2018 at 10:30 a.m..

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 28 May 2018 to Thursday, 31 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2018.

To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 7 June 2018 to Friday, 8 June 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 June 2018.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year 2017, except for code provision E.1.2 that our Chairman, Dr. LU Hua was not able to attend the annual general meeting of the Company held on 8 June 2017 due to other business commitment. Our President, Mr. HUANG Wei chaired the meeting and, together with the chairman of the audit committee, nomination committee and remuneration committee and other directors, were present to answer the shareholders' questions.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors namely Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar, David. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters including the review of the 2017 final results and the audited consolidated financial statements for the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the year.

APPRECIATION

We take this opportunity to express our gratitude to our investors and shareholders for their trust and support and to thank our colleagues on the Board and the staff members of the Group for their hard work, loyal service and contributions during the year.

By Order of the Board
SHENZHEN INVESTMENT LIMITED
LU Hua
Chairman

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprises 9 directors, of which Dr. LU Hua, Mr. HUANG Wei, Mr. MOU Yong and Mr. LIU Chong are the executive directors of the Company, Dr. WU Jiesi and Mr. LIU Shichao are the non-executive directors of the Company and Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar David are the independent non-executive directors of the Company.