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深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00604)

2018 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Shenzhen Investment Limited (the “Company”) presents the interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017. These interim financial information have not been audited, but have been reviewed by the Company’s audit committee and the auditors, KPMG.

FINANCIAL HIGHLIGHTS

- The Group achieved a revenue of HK\$11,304.2 million, representing an increase of 107.3% over the same period of the last year; the gross profit margin was 34.3%;
- The Group achieved gross profits of HK\$3,881.5 million, representing an increase of 76.7% over the same period of the last year;
- Profit attributable to equity shareholders was HK\$217.3 million, representing a decrease of 94.0% over the same period of the last year; if excluding the net effect of the changes in fair value of investment properties and financial assets of the Group, profit attributable to equity shareholders was HK\$1,274.5 million, representing a decrease of 62.8% over the same period of the last year;
- Basic earnings per share were HK2.70 cents, representing a decrease of 94.3% over the same period of the last year;
- Sales revenue booked was HK\$9,292.5 million in property development business, representing an increase of 145.1% over the same period of the last year; the gross profit margin of property development and sales was 36.3%;
- Non-cash losses resulting from the fluctuation of fair value of financial assets were HK\$1.89 billion;
- Finance costs bore a rate of 4.9% per annum; net gearing ratio (including all interest-bearing liabilities) was 67.5%;
- The Board declared an interim dividend of HK7.00 cents per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2018	2017
	Note	\$'000	(Note) \$'000
Revenue	5	11,304,212	5,453,811
Cost of sales		<u>(7,422,740)</u>	<u>(3,256,808)</u>
Gross profit		3,881,472	2,197,003
Other income and gains	5	152,488	91,065
Gain on disposal of subsidiaries		12,997	3,676,757
Decrease in fair value of financial assets at fair value through profit or loss, net		(1,887,873)	(314)
Increase in fair value of investment properties		478,600	272,928
Selling and distribution expenses		(84,371)	(100,196)
Administrative expenses		(394,680)	(346,921)
Other operating expenses		(232,716)	(74,042)
Finance costs	6	(359,208)	(211,436)
Share of profits less losses of joint ventures and associates		<u>295,024</u>	<u>(56,251)</u>
Profit before taxation	7	1,861,733	5,448,593
Income tax expense	8	<u>(1,544,663)</u>	<u>(1,740,453)</u>
Profit for the period		<u>317,070</u>	<u>3,708,140</u>
Attributable to:			
Equity shareholders of the Company		217,266	3,628,682
Non-controlling interests		<u>99,804</u>	<u>79,458</u>
		<u>317,070</u>	<u>3,708,140</u>
Earnings per share	9		
Basic		<u>HK2.70 cents</u>	<u>HK47.42 cents</u>
Diluted		<u>HK2.69 cents</u>	<u>HK47.41 cents</u>

Note:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transaction methods chosen, comparative information is not restated. See note 3.
- (ii) Details of dividends payable to equity shareholders of the Company are set out in note 10 of the interim financial information.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2018	2017
	\$'000	(i) \$'000
Profit for the period	317,070	3,708,140
Other comprehensive income for the period:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– 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
<i>Item that may be reclassified subsequently to profit or loss:</i>		
– Available-for-sale investments: net movement in fair value reserve (recycling) (ii)		
– Changes in fair value	–	4,883
– Income tax effect	–	(1,221)
	–	3,662
– Share of other comprehensive income of joint ventures and associates	(29,403)	32,951
– Exchange fluctuation reserve released upon disposal of subsidiaries	6,830	(93,486)
– Exchange differences on translation of foreign operations	(515,704)	1,312,499
	(538,277)	1,255,626
Other comprehensive income for the period, net of tax	(538,277)	1,260,925
Total comprehensive income for the period	(221,207)	4,969,065
Attributable to:		
Equity shareholders of the Company	(288,602)	4,775,072
Non-controlling interests	67,395	193,993
Total comprehensive income for the period	(221,207)	4,969,065

Note:

- (i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.
- (ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained profits. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

	At 30 June 2018	At 31 December 2017 (Note)
<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>
Non-current assets		
Property, plant and equipment	4,731,847	4,746,901
Prepaid land lease payments	36,408	37,349
Goodwill	376,068	379,302
Investment properties	27,114,915	26,939,445
Interests in associates	4,408,762	4,431,186
Interests in joint ventures	4,988,009	4,816,707
Other financial assets	–	7,869,007
Financial assets at fair value through profit or loss	5,910,720	–
Financial assets at fair value through other comprehensive income	61,737	–
Other long term assets	2,699,026	3,015,861
Deferred tax assets	2,210,902	2,028,151
Total non-current assets	52,538,394	54,263,909
Current assets		
Biological assets	862	333
Completed properties held for sale	8,666,646	5,977,395
Properties under development	37,020,074	39,710,990
Inventories	153,696	115,699
Trade receivables	419,018	371,047
Prepayments, deposits and other receivables	3,009,163	3,799,165
Equity investments at fair value through profit or loss	–	4,517
Financial assets at fair value through profit or loss	3,479	–
Restricted cash	1,415,133	1,817,022
Cash and cash equivalents	7,933,788	11,167,070
Total current assets	58,621,859	62,963,238

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2018 – unaudited (continued)**(Expressed in Hong Kong dollars)*

		At 30 June 2018	At 31 December 2017 (Note)
	Note	\$'000	\$'000
Current liabilities			
Interest-bearing bank loans and other borrowings		8,969,124	8,137,680
Trade payables	13	2,104,246	1,622,921
Other payables and accruals		13,331,274	22,522,866
Contract liabilities		3,872,334	–
Due to the immediate holding company		1,161,786	1,359,741
Due to the ultimate holding company		4,831,541	5,107,312
Tax payable		6,516,958	7,973,704
Total current liabilities		40,787,263	46,724,224
Net current assets		17,834,596	16,239,014
Total assets less current liabilities		70,372,990	70,502,923
Non-current liabilities			
Interest-bearing bank loans and other borrowings		17,107,542	14,765,566
Deferred income		28,678	28,187
Due to the immediate holding company		798,196	781,549
Deferred tax liabilities		8,819,106	9,826,789
Total non-current liabilities		26,753,522	25,402,091
NET ASSETS		43,619,468	45,100,832
CAPITAL AND RESERVES			
Share capital		19,713,847	19,712,476
Reserves		20,393,754	21,755,765
Total equity attributable to equity shareholders of the Company		40,107,601	41,468,241
Non-controlling interests		3,511,867	3,632,591
TOTAL EQUITY		43,619,468	45,100,832

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transaction methods chosen, comparative information is not restated. See note 3.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1. REVIEW OF RESULTS

The interim financial information and related notes set out on pages 2 to 18 of this preliminary announcement do not constitute the Group's condensed interim financial statements for the six months ended 30 June 2018 but are extracted from those financial statements.

The condensed interim financial statements comprise those of Shenzhen Investment Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") and have equity accounted for the Group's interests in associates and joint ventures.

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included in the interim report to be sent to shareholders. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee with no disagreement.

2. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the year ended 31 December 2017, except for the accounting policy changes that are expected to be reflected in the Company's consolidated financial statements for the year ending 31 December 2018. Details of any changes in accounting policies are set out in note 3.

The preparation of condensed interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 December 2017 included in this preliminary announcement of interim results for the six months ended 30 June 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to such 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 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap.622).

The Company's auditor has reported on the financial statements for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (Cap.622).

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract liabilities.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15:

	At 31 December 2017 \$'000	Impact on initial application of HKFRS 9 (Note 3(b)) \$'000	Impact on initial application of HKFRS 15 (Note 3(c)) \$'000	At 1 January 2018 \$'000
Interests in joint ventures	4,816,707	(38,665)	–	4,778,042
Other financial assets	7,869,007	(7,869,007)	–	–
Financial assets at fair value through profit or loss	–	7,806,739	–	7,806,739
Financial assets at fair value through other comprehensive income	–	62,268	–	62,268
Other long term assets	3,015,861	(128,890)	–	2,886,971
Deferred tax assets	2,028,151	79,582	–	2,107,733
Total non-current assets	54,263,909	(87,973)	–	54,175,936
Properties under development	39,710,990	–	295,577	40,006,567
Trade receivables	371,047	(40,023)	–	331,024
Prepayments, deposits and other receivables	3,799,165	(120,846)	–	3,678,319
Total current assets	62,963,238	(160,869)	295,577	63,097,946
Other payables and accruals	22,522,866	–	(8,850,463)	13,672,403
Contract liabilities	–	–	9,154,326	9,154,326
Total current liabilities	46,724,224	–	303,863	47,028,087
Net current assets	16,239,014	(160,869)	(8,286)	16,069,859
Total assets less current liabilities	70,502,923	(248,842)	(8,286)	70,245,795
Net assets	45,100,832	(248,842)	(8,286)	44,843,704
Reserves	21,755,765	(199,280)	(8,286)	21,548,199
Total equity attributable to equity shareholders of the Company	41,468,241	(199,280)	(8,286)	41,260,675
Non-controlling interests	3,632,591	(49,562)	–	3,583,029
Total equity	45,100,832	(248,842)	(8,286)	44,843,704

4. 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 manufacturing segment engages in the manufacture and sale of industrial and commercial products; and
- (e) the "others" segment comprises, principally, the hotel operation, 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 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 tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, fair value gains 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.

For the six months ended 30 June 2018

	Property development \$'000	Property investment \$'000	Property management \$'000	Manufacturing \$'000	Others \$'000	Total \$'000
Segment revenue:						
Sales to customers	9,292,507	439,300	910,219	160,706	501,480	11,304,212
Intersegment sales	–	3,863	13,295	–	21,266	38,424
	<u>9,292,507</u>	<u>443,163</u>	<u>923,514</u>	<u>160,706</u>	<u>522,746</u>	<u>11,342,636</u>
<i>Reconciliation</i>						
Elimination of intersegment sales						(38,424)
Revenue						<u><u>11,304,212</u></u>
Segment results before increase in fair value of investment properties	3,111,420	306,821	(5,081)	6,016	37,153	3,456,329
Increase in fair value of investment properties	–	478,600	–	–	–	478,600
	<u>–</u>	<u>478,600</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>478,600</u>
Segment results after increase in fair value of investment properties	3,111,420	785,421	(5,081)	6,016	37,153	3,934,929
<i>Reconciliation</i>						
Elimination of intersegment results						107,611
Other income and gains						152,488
Decrease in fair value of equity investments at fair value through profit or loss, net						(1,887,873)
Corporate and other unallocated expenses						(86,214)
Finance costs						(359,208)
						<u>(86,214)</u> <u>(359,208)</u>
Profit before taxation						<u><u>1,861,733</u></u>
As at 30 June 2018						
Segment assets:	57,773,855	31,300,997	415,912	156,597	4,346,695	93,994,056
<i>Reconciliation</i>						
Corporate and other unallocated assets						17,166,197
						<u>17,166,197</u>
Total assets						<u><u>111,160,253</u></u>
Segment liabilities:	17,544,622	4,073,471	726,059	93,423	171,424	22,608,999
<i>Reconciliation</i>						
Corporate and other unallocated liabilities						44,931,786
						<u>44,931,786</u>
Total liabilities						<u><u>67,540,785</u></u>

For the six months ended 30 June 2017

	Property development \$'000	Property investment \$'000	Property management \$'000	Manufacturing \$'000	Others \$'000	Total \$'000
Segment revenue:						
Sales to customers	3,791,967	425,790	734,540	168,196	333,318	5,453,811
Intersegment sales	<u>–</u>	<u>12,758</u>	<u>9,586</u>	<u>–</u>	<u>45,009</u>	<u>67,353</u>
	3,791,967	438,548	744,126	168,196	378,327	5,521,164
Reconciliation						
Elimination of intersegment sales						<u>(67,353)</u>
Revenue						<u><u>5,453,811</u></u>
Segment results before increase in fair value of investment properties	5,053,609	317,433	39,954	5,629	(25,760)	5,390,865
Increase in fair value of investment properties	<u>–</u>	<u>272,928</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>272,928</u>
Segment results after increase in fair value of investment properties	5,053,609	590,361	39,954	5,629	(25,760)	5,663,793
Reconciliation						
Elimination of intersegment results						(20,621)
Other income and gains						91,065
Decrease in fair value of equity investments at fair value through profit or loss, net						(314)
Corporate and other unallocated expenses						(73,894)
Finance costs						<u>(211,436)</u>
Profit before taxation						<u><u>5,448,593</u></u>
As at 31 December 2017						
Segment assets:	58,337,980	30,789,340	509,701	150,975	3,913,127	93,701,123
Reconciliation						
Corporate and other unallocated assets						<u>23,526,024</u>
Total assets						<u><u>117,227,147</u></u>
Segment liabilities:	18,338,956	4,640,678	752,103	87,631	195,756	24,015,124
Reconciliation						
Corporate and other unallocated liabilities						<u>48,111,191</u>
Total liabilities						<u><u>72,126,315</u></u>

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

5. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	\$'000	\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of completed properties	9,292,507	3,791,967
Management fee income	910,219	734,540
Sales of commercial and industrial goods	160,706	168,196
Others	501,480	333,318
	<u>10,864,912</u>	<u>5,028,021</u>
Revenue from other sources		
Rental income from investment properties	439,300	425,790
	<u>11,304,212</u>	<u>5,453,811</u>
Other income and gains		
Interest income	138,875	77,901
Others	13,613	13,164
	<u>152,488</u>	<u>91,065</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	\$'000	\$'000
Interest on:		
Bank loans	474,787	309,310
Other borrowings	129,813	123,580
Loans from the ultimate holding company	80,910	55,121
Loans from the immediate holding company	17,571	26,676
Loans from a fellow subsidiary	61,709	995
Loans from a joint venture	33,338	–
Loans from non-controlling shareholders	2,383	375
Total interest expense on financial liabilities not at fair value through profit or loss	800,511	516,057
Less: Interest capitalised into properties under development	(441,303)	(304,621)
	359,208	211,436

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2018	2017
	\$'000	\$'000
Amortisation of prepaid land lease payments	525	568
Depreciation	100,176	101,708
Impairment loss/(reversal of impairment losses)		
– trade receivables and other receivables	51,312	(568)
– interests in joint ventures (loans to joint ventures) and other long term assets	90,257	–

8. INCOME TAX EXPENSE

The provision for Hong Kong Profits Tax for the six months ended 30 June 2018 is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for the interim period ("Period"). 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 Period (six months ended 30 June 2017: nil).

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 Period.

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 sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

	Six months ended 30 June	
	2018	2017
	\$'000	\$'000
Current tax:		
Mainland China CIT	1,225,807	1,072,891
Withholding tax on dividend	5,648	–
LAT in mainland China	1,351,956	678,805
Deferred tax:		
Mainland China CIT	(889,666)	(135,283)
Withholding tax on dividend	81,424	186,796
LAT in mainland China	(230,506)	(62,756)
Total tax charge for the Period	<u>1,544,663</u>	<u>1,740,453</u>

9. EARNINGS PER SHARE

(a) Basis earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$217,266,000 (six months ended 30 June 2017: \$3,628,682,000) and the weighted average of 8,058,331,832 ordinary shares (2017: 7,651,815,734 shares) in issue during the Period.

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to equity shareholders of the Company of \$217,266,000 (six months ended 30 June 2017: \$3,628,682,000) and the weighted average of 8,072,116,148 ordinary shares (2017: 7,653,107,575 shares).

10. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	\$'000	\$'000
Dividends recognised as distribution during the Period:		
Final dividend declared for 2017 – HK11.00 cents per share (2017: declared for 2016 – HK10.00 cents per share) (i)/(ii)		
Scrip shares	549,527	601,814
Cash	336,922	165,152
Special dividend declared for 2017 – nil per share (2016: HK5.00 cents per share) (i)/(ii)		
Scrip shares	–	300,907
Cash	–	82,576
	886,449	1,150,449

Dividend declared in respect of current Period:

Proposed interim dividend for 2018 – HK7.00 cents per share (2017: HK7.00 cents per share) (i)/(iii)	576,223	555,244
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Notes:

- (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 HK11.00 cents per share in respect of year ended 31 December 2017 amounted to \$886,449,000, of which \$336,922,000 were paid in cash and the remaining balance of \$549,527,000 were settled in the form of 173,133,769 scrip shares on 17 August 2018.

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 were settled in the form of 258,807,500 scrip shares on 18 August 2017.

- (iii) On 27 August 2018, the board of directors recommends an interim dividend of HK7.00 cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK7.00 cents per share) amounted to \$576,223,000.

The amount of the interim dividend for 2018 was calculated on the basis of 8,231,758,752 shares in issue as at 27 August 2018.

11. TRADE RECEIVABLES

	At 30 June 2018 \$'000	At 31 December 2017 \$'000
Trade receivables	517,626	405,202
Less: allowance for doubtful debts	(98,608)	(34,155)
	<u>419,018</u>	<u>371,047</u>

Under normal circumstances, the Group does not grant any credit terms to its customers for the sale of properties. In respect of the remaining trade receivables, the credit terms range from 30 to 120 days from the date of billing. 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 aging 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:

	At 30 June 2018 \$'000	At 31 December 2017 \$'000
Within one year	346,753	341,866
One to two years	60,677	29,181
Two to three years	11,588	—
	<u>419,018</u>	<u>371,047</u>

12. PLEDGE OF ASSETS

Bank loans amounting to \$414,448,000 (31 December 2017: \$402,878,000) were secured by certain of the Group's assets as below:

- (i) properties under development with a carrying amount value of approximately \$1,154,942,000 (31 December 2017: nil) was used to secure banking facilities amounting to \$1,660,540,000, of which \$15,005,000 had been drawn down at 30 June 2018;
- (ii) land and buildings and investment properties in mainland China with net carrying amounts of approximately \$693,096,000 and \$517,303,000 (31 December 2017: \$699,057,000 and \$521,752,000) were used to secure banking facilities amounting to \$399,443,000, of which \$399,443,000 had been drawn down at 30 June 2018.

In addition, Shum Yip Group, the ultimate holding Company, has guaranteed certain of the Group's bank loans of \$2,965,250,000 as at 30 June 2018 (31 December 2017: \$2,990,750,000).

13. TRADE PAYABLES

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

	At 30 June 2018 \$'000	At 31 December 2017 \$'000
Within one year	1,066,958	779,004
One to two years	611,299	358,440
Two to three years	148,329	175,444
Over three years	277,660	310,033
	<u>2,104,246</u>	<u>1,622,921</u>

14. CAPITAL COMMITMENTS

	At 30 June 2018 \$'000	At 31 December 2017 \$'000
Commitments in respect of the acquisition of land and buildings, and development costs attributable to properties under development: Contracted, but not provided for	<u>5,408,912</u>	<u>8,717,238</u>
Commitments in respect of capital contribution to a joint venture: Contracted, but not provided for	<u>2,032,500</u>	<u>2,032,500</u>

15. CONTINGENT LIABILITIES

As at 30 June 2018, the Group has given guarantees to a maximum extent of approximately \$7,122,012,000 (31 December 2017: \$6,556,126,000) 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.

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

		Six months ended 30 June	
		2018	2017
		\$'000	\$'000
(1)	Shum Yip Group, the ultimate holding company:		
	– Interest expenses	80,910	55,121
	– Management fee income	1,068	988
	– Rental income	6,388	5,909
(2)	Shum Yip Holdings, the immediate holding company:		
	– Interest expenses	17,571	26,676
	– Management fee expenses	1,620	180
	– Rental expenses	5,777	5,018
(3)	Joint ventures:		
	– Interest expenses	33,338	–
	– Sales of products	53,111	44,807
	– Interest income	37,622	22,312
(4)	Associates:		
	– Interest income	13,802	–
(5)	Fellow subsidiaries:		
	– Interest expenses	61,709	995
	– Rental expenses	253	234
	– Interest income	841	667

Notes:

The prices for the above transactions were determined based on mutual agreement between the parties.

(b) Other transaction with related parties

- (i) At 30 June 2018, the Group's interest-bearing bank loans and other borrowings amounting to \$2,965,250,000 (31 December 2017: \$2,990,750,000) were guaranteed by Shum Yip Group (note 12).
- (ii) Shenzhen Shumyip Ming Hong Real Estate Development Co., Ltd ("Minghong"), a subsidiary of the Company, is the principal of a redevelopment project approved by the Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會), redeveloping a community on the land within the project, where Shenzhen Shumyip Xinhongcheng Investment Co., Ltd. ("Xinhongcheng"), a wholly-owned subsidiary of Shum Yip Group, and Hengxing Industrial (Shenzhen) Co., Ltd. ("Hengxing"), held properties.

At 27 March 2018, Minghong entered into agreement with Xinhongcheng to compensate it by providing the residential resettlement properties with a total area of 41,989.99 sq.m. to be constructed on the land and paying compensations with an estimated total amount of RMB36,960,000.

At 27 March 2018, Minghong entered into agreement with Xinhongcheng and Hengxing (liquidation team) to compensate them by providing the residential resettlement properties with an area of 808.15 sq.m and 5,408.39 sq.m, respectively, to be constructed on the land and paying compensations with an estimated total amount of RMB1,152,000.

(c) Commitments with a related party

- (i) The Group entered into certain operating lease arrangements with Shum Yip Holdings. The amount of lease expenses for the Period is included in note 16(a) above. The Group expects the total lease expenses in the second half year of 2018 and the years of 2019 to be approximately \$5,395,000 and \$3,605,000 respectively.
- (ii) As disclosed in the announcement dated 14 July 2017, the Group agreed a maximum capital contribution to Shum King Limited of \$3,000,000,000 for its development of a piece of land in Hong Kong. As at 30 June 2018, the Group had an outstanding capital commitment to Shum King of \$2,032,500,000 (note 14).

(d) Outstanding balances with related parties

	Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
	At 30 June 2018 \$'000	At 31 December 2017 \$'000	At 30 June 2018 \$'000	At 31 December 2017 \$'000
Due to the immediate holding company	–	–	(1,959,982)	(2,141,290)
Due to the ultimate holding company	–	–	(4,831,541)	(5,107,312)
Loans from fellow subsidiaries	–	–	(3,119,708)	(1,074,446)
Loans from associates	–	–	(48,793)	(81,145)
Loans from joint ventures	–	–	(1,189,658)	(2,648,740)
Due from the immediate holding company	570	575	–	–
Due from the ultimate holding company	153,115	97,910	–	–
Loans to joint ventures	3,277,131	2,422,198	–	–
Loans to fellow subsidiaries	41,146	41,097	–	–
Loans to an associate	573,592	–	–	–
	4,045,554	2,561,780	(11,149,682)	(11,052,933)

The amounts due to related parties presented above include balances amounting to \$9,274,753,000 (2017: \$ 9,680,705,000) which are interest-bearing. The related interest expenses are presented in note 16(a) above. The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from related parties presented above include balances amounting to \$3,580,085,000 (2017: \$2,111,053,000) which are interest-bearing. The related interest income are presented in note 16(a) above. The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

CHAIRMAN'S STATEMENT

In the first half of 2018, the macro-economic condition was mixed, with significant changes in both internal and external economic environment including the interest rate hike and trade war launched by the United States and tightening liquidity in domestic market, posing various uncertainties and challenges to the operation and development of enterprises. The real estate market condition remained the same as last year. The policies of purchase restrictions and price restrictions in the first-tier cities including Shenzhen were still severe with small supply of new houses, and the price of the newly launched projects remained relatively stable under the policy of price restrictions. Strong demand from buyers persisted in the first-tier and second-tier cities, and sales of the newly launched projects in many hot cities were carried out by means of lottery, showing undiminished enthusiasm of buyers. Demand in the real estate market in the third-tier and fourth-tier cities continued, with remarkable performance of destocking.

Given uncertain external environment, the Group pushed forward each task as scheduled, including expanding quality land resources, strengthening financing and financial security, and reviewing company strategies to adapt to changes in economic environment and revolution of the real estate industry. During the Period, affected by the non-cash loss arising from changes in fair value of the equity interests in Hengda Real Estate Group Company Limited ("Hengda Real Estate") held by the Group and on the back of a high base due to the one-off gains of HK\$3.3 billion from the disposal of projects in the third-tier and fourth-tier cities during the same period of last year, results of the Group experienced substantial fluctuations during the Period.

2018 Interim Results

During the Period, the Group achieved a turnover of HK\$11,304.2 million, representing an increase of 107.3% over the same period of last year. Gross profit was HK\$3,881.5 million, representing an increase of 76.7% over the same period of last year. Net profit attributable to equity shareholders was HK\$217.3 million, representing a decrease of 94.0% over the same period of last year. If excluding the net effect of the changes in fair value of investment properties attributable to the Group and fair value of financial assets, net profit attributable to equity shareholders was HK\$1,274.5 million, representing a decrease of 62.8% over the same period of last year. Basic earnings per share were HK2.70 cents, representing a decrease of 94.3% over the same period of last year.

Changes in fair value of the equity interests in Hengda Real Estate held by the Group will have continuous non-cash effect on the results of the Group in the following years. In order to protect shareholders' interests, the Board decided to maintain the stability of its dividend payment for a certain period in the future. The Board resolved to distribute an interim dividend of HK7.00 cents per share for 2018 in cash (with a scrip dividend alternative).

Sales Results in Line with Expectation

The sales of the Group in the first half of the year were in line with expectation with contracted sales of approximately RMB4.3 billion, of which, the contribution from Shenzhen projects accounted for approximately 47%. Main projects include Shum Yip Dongling, UpperHills, Ma'anshan Shum Yip Huaifu and Gaobangshan No.1. Shum Yip Zhongcheng (apartments and office) and Taifu Square, accounting for approximately two-thirds of properties value for the year, will be launched in the second half of the year as planned. It is expected that the contracted sales will increase substantially in the second half of 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. The Group continued to focus on the Big Bay Area, and intensified its development in Shenzhen by expanding land resources. During the Period, the Group entered into a relocation and compensation agreement with the original owners including subsidiaries of Shum Yip Group, the ultimate holding company of the Company, for the urban renewal project of Xinhongcheng (信宏城城市更新項目), which is located at Xiashijiacun, Jiangshicun, Gongming Street, Guangming New District, Shenzhen. The project has been included in the Shenzhen City Urban Renewal Planning (深圳市城市更新單元計劃) in 2015 and was approved by the Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規土委) for redevelopment into a modern community with residential and commercial functions. The project covers an area of approximately 90,000 square meters, with a total gross floor area of approximately 220,000 square meters (including resettlement houses of approximately 72,000 square meters), of which, 180,000 square meters is for residential use, approximately 19,000 square meters is for indemnificatory apartments and 12,000 square meters is for commercial use. The Group expects to obtain the qualification of development capacity during the year. In addition, positive results have been achieved in the redevelopment work of the Group in Shenzhen during the Period. The Shanglinyuan project in Bagualing has been included in the urban renewal planning and is under planning approval. It is expected that the qualification of development capacity will be obtained during the year.

During the Period, the Group proactively obtained a valuable opportunity to participate in the development and operation management of Shenzhen portion (Hetao area) of the Shenzhen-Hong Kong Science and Technology Innovation Special Cooperation Zone (深港科技創新特別合作區). The Group will actively work together with the Government of Futian District and other state-owned enterprises of Shenzhen to push forward the development and construction of the Cooperation Zone.

During the Period, the Group successfully implemented the Wuhan Bio Valley Project (武漢生物谷項目). The Bio Valley Project is located at East Lake High-tech Development Zone, Wuhan, covering an area of approximately 93,000 square meters and a capacity building area of approximately 186,000 square meters, which is planned to be developed into a quality residential community.

Sound Financial Position Maintained

Under the macro-background of “deleveraging”, the Group further strengthened its integrated fund planning and finance management capabilities. During the Period, the Group successfully obtained a syndicated loan of HK\$10 billion, and maintained its average borrowing costs at a lower level of 4.9% per annum and gearing ratio at a reasonable level by means of debt replacement and optimization of loan portfolio. As of 30 June 2018, net gearing ratio (including all interest-bearing liabilities) of the Group was 67.5%.

The Group will continue to seek for high-quality assets, improve operational efficiency and promote the transformation of its profit model to create sustained and steady returns for shareholders.

Outlook

Since the second half of 2018, with further upgrading of industry controls, implementation of the deleveraging policy and slowdown of the reform of demolition with monetized resettlement, the real estate industry began to face dual pressures of capital and demand. The challenges are more severe for the third-tier and fourth-tier cities, and protection of healthy operation and capital security becomes the theme of the industry this year. The Group has been closely monitoring the development of economy and the industry. Adjustment has been made to the original business strategies to take the balance of cash flows from operations as its primary goal. As such, the Group will significantly speed up the marketing pace of the saleable properties in the second half of the year. The Group increased its annual contracted sales plan from RMB15 billion to RMB20 billion. It also stepped up efforts in recovering funds. And leveraging the advantage of low-cost capital, it aims to maintain reasonable gearing ratio while ensuring sufficient capital to respond to future changes in the industry. As all the projects to be launched in the second half of the year are located in Shenzhen and such type of product is less affected by new controls, the Group is very confident to realize the new contractual sales target.

As the industry control goes further, good opportunities for acquisition will emerge in the land market, which will be a good time for the Group to leverage its own advantages to acquire resources. Driven by the technology innovation, industry development and establishment of international city cluster in the Guangdong-Hong Kong-Macao Big Bay Area, each city in the Big Bay area is expected to release huge potential for development. The Group will continue to focus on the Big Bay Area and intensify its development in Shenzhen, and choose methods of resources acquisition suitable for its own development to proactively expand Guangdong-Hong Kong-Macao city groups and the land projects in Shenzhen by the following means: first, deepening our cooperation with our parent company to increase our land reserves in Shenzhen and the Big Bay Area; second, proactively grasping the opportunity to participate in the development of the Shenzhen-Hong Kong Science and Technology Innovation Special Cooperation Zone, and capitalizing on the Group's footprint in both Shenzhen and Hong Kong, its abilities in introducing industrial resources and its core capabilities in providing sound park operation services to strive to promote the development and operation of the Cooperation Zone; and third, leveraging on the Group's advantage as a coordinator in urban areas of Shenzhen as well as our professional competence in industry planning, comprehensive operation and public ancillary facilities in the process of urban redevelopment projects to secure more development resources for quality urban areas.

The pattern of the PRC real estate market has been changed significantly, and policy keynote greatly affects the development of the real estate market. In the second half of the year, the real estate control policies in hot cities are expected to be further upgraded. At the end of July, Shenzhen issued more stringent new control policies, including restriction of purchases by enterprises, restriction of transferring apartments within five years after purchase and restriction of individuals selling housing properties within three years after purchase. The new policies aim to curb irrational purchase of houses by individuals and enterprises from the demand side, restrict capital speculation on the apartments, improve the credit policies and firmly implement the philosophy of "house is a place to live instead of a tool for speculation". The "rent only" restriction on apartments on newly acquired land as set out in the new policies of Shenzhen led to low supply in the apartment market ahead of schedule. On the supply side, according to the opinion on "secondary housing reform" (二次房改) previously issued by the Housing and Construction Bureau of Shenzhen Municipal, in the future, Shenzhen will focus on building a multi-level, differentiated and fully covered housing supply and security system, among which commercial housing supply accounts for only 40% of the housing supply, while the talent housing for professional talent, the affordable commercial housing that meets certain income limit and the public rental housing for low-income groups are planned to reach 1 million units by 2035, which will become important sources of housing supply in Shenzhen. With implementation of a series of policies, both supply and demand sides in Shenzhen real estate market have been restrained to a certain extent, and the trading volume of properties will be reduced with the price expected to remain stable.

Development of the Guangdong-Hong Kong-Macao Big Bay Area is a national strategy that drives the formation of a new open-up landscape in China. The Big Bay Area planning will lead and propel the development of the city cluster in the bay area characterized by reasonable allocation, complementary functions and effective cooperation among different cities. Positioned as an international science and technology innovation center, the Big Bay Area will establish an innovation corridor connecting “Guangzhou-Shenzhen-Hong Kong-Macao” to emerge itself as a world-class city cluster full of vitality and international competitiveness. With the implementation of the Guangdong-Hong Kong-Macao Big Bay Area Strategy, each city in the Big Bay Area will be able to embrace various opportunities for high quality development. The optimization of industry system and reform of housing supply system will further improve the competitiveness of cities in the bay area as well as its attractiveness to immigrants and support the development of the real estate markets in the bay area, in particular, Shenzhen, in a healthy and orderly manner. In the long run, under the multi-level housing supply structure, different levels of demand will be met by different types of products. The scarcity of land resource in the Big Bay Area and the siphonic effect of urban development will further intensify the scarcity of mid-high end products, and the value of quality assets will be strongly supported on fundamental aspect. With the implementation of long-term effective mechanism in the real estate industry and introduction of a large number of apartments for rent, the long-term rental apartment market will become an important component of the real estate market.

The Group will actively adapt to the changes in the real estate market, insist on the strategy of “developing, sale, holding and management equally” and leverage its resources and capital advantages to create superior products with the spirit of craftsmanship, and build and enhance its ability to operate professionally. I firmly believe that excellent assets with superior quality will release huge value after careful operation and cultivation. Looking forward, talent housing, affordable housing and public rental housing are key housing supply. The Group will take advantage of its state-owned enterprise background to strengthen its cooperation with local governments, and actively participate in such entrusted construction business as talent housing with a light-assets model, laying a foundation for expansion of the operating market and acquisition of resources. In addition, the Group will strengthen the exploration and practice of long-term rental apartment business by sufficient market research and optimize product design, so as to create our proprietary brand for long-term rental apartment, enhance the competitiveness of our products and services, expand our business steadily and explore sustainable business opportunities of long-term rental apartment development.

In the next five years, sticking to the vision of being a “Leader in Value Creation for City Spaces”, the Group will continue to focus on the Big Bay Area and intensify its development in Shenzhen. On the premise of ensuring healthy operation, the Group will maintain a sound and healthy growth in development and sales volume, and appropriately expand commercial properties and long-term rental apartments. The Group will enhance its operational capabilities by optimizing its investment property portfolio, and continuously improve asset quality and returns. Meanwhile, the Group will also establish operating and service platforms with core competitiveness, give full play of its advantage in urban function upgrading and improve the value of urban spaces for park, commercial and residential purposes. I believe, through such unremitting efforts, the Group will be able to achieve a sound, sustainable and steady development and create better return for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

During the first half of 2018, controls over the real estate market remained tight. The government continued to implement stringent control policies in the first-tier and second-tier cities. Impacted by “purchase restrictions, credit restrictions and price restrictions”, new houses supply decreased and price maintained stable in Shenzhen, but the housing demand was still strong. In the third-tier and fourth-tier cities, demand in real estate market followed last year’s high, which led to a remarkable performance in destocking.

The Group pushed forward each task as scheduled, including expanding land bank in the first-tier and second-tier cities, strengthening financing and financial security, and reviewing company strategies to adapt to changes in economic environment and revolution of the real estate industry. During the Period, affected by the non-cash loss arising from changes in fair value of the equity interests in Hengda Real Estate held by the Group and on the back of a high base due to the one-off gains from the disposal of projects in the third-tier and fourth-tier cities during the same period of last year, results of the Group experienced substantial fluctuations during the Period.

During the Period, the Group realized turnover of approximately HK\$11,304.2 million, representing an increase of 107.3% over the same period of last year. Gross profit was HK\$3,881.5 million, representing an increase of 76.7% over the same period of last year. Gross profit margin was 34.3%, representing a decrease of approximately 6.0 percentage points over the same period of last year. Net profit attributable to equity shareholders was HK\$217.3 million, representing a decrease of 94.0% over the same period of last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group and changes in fair value of financial assets, net profit attributable to equity shareholders was HK\$1,274.5 million, representing a decrease of 62.8% over the same period of last year. Basic earnings per share were HK2.70 cents, representing a decrease of 94.3% over the same period of last year.

PROPERTY DEVELOPMENT BUSINESS

Sales Revenue Booked

During the Period, the Group recorded property sales booked of approximately 342,000 square meters (excluding interests attributable to the Group in its three major associates), representing an increase of 58.3% over the same period of last year, and achieved net revenue in property sales of approximately RMB7,596.3 million (equivalent to HK\$9,292.5 million) (net of value-added tax), representing an increase of 145.1% over the same period of last year. Gross profit margin of property development and sales was 36.3%, representing a decrease of 8.7 percentage points over the same period of last year. During the Period, the percentage of Shenzhen projects in the sales revenue booked during the Period was 75.9%. During the Period, the average gross profit margin for Shenzhen projects of the Group was approximately 35.5%, whereas the average gross profit margin in other cities was approximately 38.8%.

Property Sales Booked in the First Half of 2018

Property Name	Type	Booked Area (sq.m.)	Net Sales (RMB million)	Unit Price (RMB/sq.m.)
UpperHills	Residential	1,406	164	116,643
Shum Yip Dongling	Residential	83,625	5,318	63,593
Jiangyue Bay	Residential/shop	967	22	22,751
Rui Cheng	Residential/shop	35,039	259	7,392
Ma'anshan Shum Yip Huafu	Residential	103,737	596	5,745
Splendid City	Residential	6,403	32	4,998
Saina Bay	Residential/villa	1,269	11	8,668
Wanlin Lake	Residential/villa	1,417	9	6,351
Shunde Shum Yip City	Residential	39,495	373	9,444
Euro-view Garden	Shop	125	2	16,000
Changzhou Shum Yip Huafu	Residential	23,712	199	8,392
Yihu Rose Garden	Residential	449	2	4,454
Garden Hills	Residential	24,163	210	8,691
Nanhu Rose Bay	Residential/villa	886	43	48,533
Bofeng Building	Office	7,307	286	39,141
Parking place sales*	Parking place	12,134	70	–
Total		342,135	7,596	–

Note*: 1,011 parking lots were sold

Contracted Sales

During the Period, the Group realized a contracted sales area of approximately 263,000 square meters and contracted sales income of approximately RMB4.31 billion, representing a decrease of approximately 52.0% over the same period of last year. The average price per square meter was RMB16,367.

Contracted sales for the first half of the year were mainly contributed by projects including Shum Yip Dongling, Gaobangshan No.1, Ma'anshan Shum Yip Huafu, UpperHills and Wanlin Lake, of which, Shenzhen projects accounted for approximately 47% of total sales. The saleable properties value for the first half of the year accounts for approximately 30% of the annual properties value, we think that the sales met the expectation. Besides, projects in the third-tier and fourth-tier cities, such as Ma'anshan and Huizhou, achieved satisfactory sales.

Shum Yip Zhongcheng (office and apartments) and Taifu Square, key projects of the Group for the year, will be launched in the second half of the year as scheduled.

Contracted Sales in the First Half of 2018

Project Name	City	Type	Sales Area (sq.m.)	Sales ^{note 1} (RMB million)
Shum Yip Dongling	Shenzhen	Complex	20,923	1,497
Changzhou Shum Yip Huafu	Changzhou	Residential	5,536	27
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	49,851	426
Gaobangshan No.1	Huizhou	Residential	84,233	808
Jiangyue Bay	Guangzhou	Residential	110	13
Shunde Shum Yip City	Foshan	Residential	1,204	20
Xiangdian	Heyuan	Residential	535	6
Garden Hills	Huizhou	Residential	2,712	32
Splendid City	Taizhou	Residential	6,754	36
Euro-view Garden	Dongguan	Residential	184	29
Rui Cheng	Changsha	Residential	14,967	166
Wanlin Lake	Huizhou	Residential	31,306	338
Shum Yip Xihui	Changsha	Residential	22,509	145
Qingshuihe Auto Park	Shenzhen	Warehouse/Commercial	2,205	91
Yihu Rose Garden	Chengdu	Residential	5,936	45
Nanhu Rose Bay	Wuhan	Complex	680	28
Royal Spring Garden	Chaohu	Residential	9,561	147
UpperHills	Shenzhen	Complex	3,278	407
Tanglang City ^{note 2}	Shenzhen	Complex	737	47
Total			263,221	4,308

Notes:

1. The amount of sales included the sales amount of parking lots.
2. 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 Period, the Group had a new construction area of approximately 787,000 square meters, representing an increase of 33.6% over the same period of last year and a completed area of approximately 531,000 square meters, representing an increase of 9.0% over the same period of last year.

New Construction Projects in the First Half of 2018

Project Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Yihu Rose Garden Longjing	Chengdu	Residential	39,599	30,137
Garden Hills Phase 3.2	Huizhou	Residential	214,529	171,559
Ruicheng Phase 3.2	Changsha	Residential	66,627	48,671
Gaobangshan No.1 Garden Phase 2	Huizhou	Residential	352,516	264,444
Chengdu Jinxiu Workshop, South lot	Chengdu	Commercial	11,263	6,735
Shum Yip Xihui	Changsha	Residential	102,821	82,624
Total			787,355	604,170

Completed Projects in the First Half of 2018

Project Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Ruicheng Phase 3.1	Changsha	Residential	73,433	49,189
Shum Yip Dongling Lot 03-01	Shenzhen	Complex	457,359	137,196
Total			530,792	186,385

Land Reserves

During the Period, the Group successfully implemented the Wuhan Bio Valley Project (武漢生物谷項目). The Bio Valley Project is located at East Lake High-tech Development Zone, Wuhan, covering an area of approximately 93,000 square meters and a capacity building area of approximately 186,000 square meters, which is planned to be developed into a quality residential community.

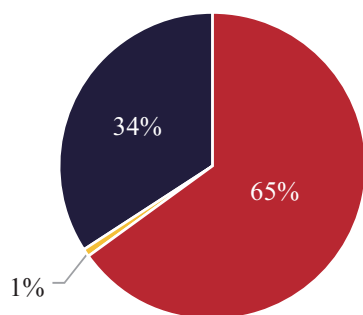
Breakthrough in Urban Redevelopment

During the Period, the Group entered into a relocation and compensation agreement with the original owner inclusive of subsidiaries of Shum Yip Group, the ultimate holding company of the Company, in relation to Xinhongcheng redevelopment project. The redevelopment project of Xinhongcheng is located at Xiashijiacun, Jiangshicun, Gongming Subdistrict, Guangming New District, Shenzhen, has been included in the Second Proposal of Shenzhen City Urban Renewal Planning * (深圳市城市更新單元計劃第二批計劃) in 2015 and was approved by the Urban Planning, Land & Resources Commission of Shenzhen Municipality* for redevelopment into a community with residential and commercial functions. The project covers a total area of approximately 90,000 square meters, with a gross floor area of approximately 220,000 square meters (including resettlement houses of 72,000 square meters), of which, 180,000 square meters is for residential use, approximately 19,000 square meters is for indemnificatory apartments and 12,000 square meters is for commercial use. The Group is expected to obtain the qualification as a developer for such project during the year.

In addition, the Group made positive progress in the work of land cluster development coordination. The Shanglinyuan project in Bagualing, Futian District, Shenzhen has been listed in the urban redevelopment plan, currently the planning of which has been submitted for approval. The Group is expected to obtain the qualification as a developer for such project during the year.

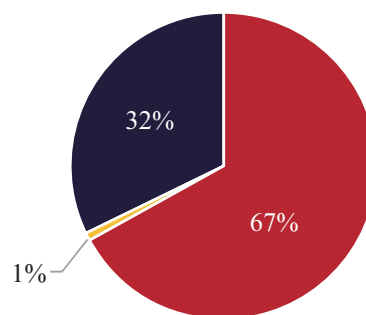
Distribution of Land Reserves (As at 30 June 2018)

By type – Planned GFA ^{note 1 and 3} (sq.m.)



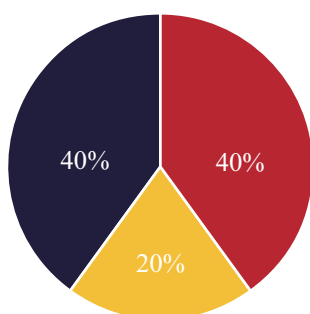
■ Residential ■ Industrial ■ Complex

By type – Capacity Building Area ^{note 2 and 3} (sq.m.)



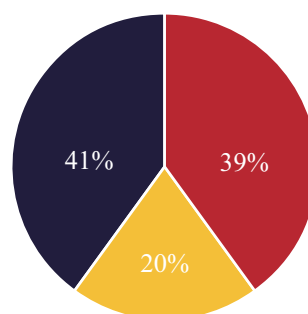
■ Residential ■ Industrial ■ Complex

By City – Planned GFA ^{note 1 and 3} (sq.m.)



■ 1st-tier city ■ 2nd-tier city ■ 3rd-tier and 4th-tier cities

By City – Capacity Building Area ^{note 2 and 3} (sq.m.)



■ 1st-tier city ■ 2nd-tier city ■ 3rd-tier and 4th-tier cities

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. Including Xinhongcheng project.

As of the end of June 2018, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 6.1 million square meters (of which the Group was interested in 5.59 million square meters), and a capacity building area of 4.59 million square meters (of which the Group was interested in 4.2 million square meters), of which, the projects under construction had a total planned GFA of approximately 3.53 million square meters (of which the Group was interested in 3.23 million square meters) and a capacity building area of 2.72 million square meters (of which the Group was interested in 2.5 million square meters). The Group's capacity building area of land reserve in the first-tier and second-tier cities and in the Big Bay Area account for 59% and 61% of its total capacity building area respectively.

The development of Guangdong-Hong Kong-Macao Big Bay Area has been formally upgraded to a national strategy. The Group continued to focus on the Big Bay Area and intensify its development in Shenzhen, and choose methods of resources suitable for its own development to proactively expand Guangdong – Hong Kong – Macao city groups and the land projects in Shenzhen.

Property Investment

At 30 June 2018, the Group has investment properties of approximately 1.13 million square meters, 85.3% of which are located in Shenzhen. During the Period, the Group recorded rental income of approximately HK\$439.3 million, representing an increase of approximately 3.2% over the same period of last year. The gross profit margin of property investment business was approximately 75.6%, representing a decrease of 8.7 percentage points over the same period of last year. The Group recorded a revaluation gain in its investment property portfolio of HK\$478.6 million for the Period. Revenue and scale of the Group's investment properties are expected to increase significantly with the completion of UpperHills and Taifu Square projects in the future.

Progress in Property Leasing

On 18 January 2018, the commercial area of UpperHills, a commercial flagship project of the Group, ushered in its grand opening, with accumulated occupancy rate of 73% and opening rate of 42%. Basically all the anchor stores opened during the Period.

Positioned as a traditional Cantonese market with great vitality to “new community with traditional ambience” (新城出現、舊情仍在), the commercial area of Shum Yip Dongling had a rented area of 28,000 square meters, accounting for 66% of GFA.

Property Management

The Group has its own property management teams who are committed to becoming “the most reliable property service integrator” by improving services, supporting the development of real estate business and helping to enhance the corporate brand. During the Period, the property management business contributed approximately HK\$910.2 million to the revenue of the Group, representing an increase of 23.9% over the same period of last year. Properties under the management of the Group are mainly located in the Pearl River and Yangtze River deltas as well as the central region, covering a variety of property types such as government offices, office buildings, residential estates, villas, and science and technology parks.

Hotel Operations

The Group owns four hotels in operation and two hotels in construction. Those in operation are Suzhou Marriott Hotel (with 293 guest rooms), Chaohu Shumyip Bantang Hot Spring Hotel (with 20 spring villas), Holiday Inn Resort Chaohu Hot Spring (with 203 guest rooms) and Muji Hotel (with 79 guest rooms) in UpperHills, Shenzhen. 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 Period, the four hotels in operation recorded operating income (included under other operating segment) of approximately HK\$108.0 million, representing an increase of 30.8% over the same period of 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 Period, the manufacturing business recorded operating income of approximately HK\$160.7 million, representing a decrease of 4.3% over the same period of last year.

Performance of Joint Ventures

During the Period, the performance of Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) was flat with last 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 Period.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of HK\$84.8 million for the Period, compared with a loss of HK\$10.0 million for the same period of 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\$45.1 million to the Group, representing an increase of 122.2% over the same period of last year.

Performance of Associates

During the Period, 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\$218.2 million to the Group, representing an increase of 180.5% over the same period of last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK\$58.9 million to the Group, compared with a loss of HK\$145.2 million for the same period of last year.

Investment in Hengda Real Estate

During 2017, the Group, through Ma'anshan Maowen Technology Industrial Park Co., Ltd., 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 1.76% equity interests in Hengda Real Estate. As required by HKFRS 9, the equity interests held by the Group in Hengda Real Estate was included as financial assets at fair value through profit or loss and accounted for at fair value, with changes in fair value recognised in profit or loss. The fair value of the Group's equity investment in Hengda Real Estate is determined using the transaction price in an active market for an identical asset, adjusted for a significant observable input, which is the movement of share price between the transaction date and the measurement date of a comparable listed company (China Evergrande Group) that is highly positively correlated to the changes in valuation of that financial assets.

During the Period, non-cash loss arising from changes in fair value of the financial assets amounted to approximately HK\$1.88 billion.

Subsequent to the end of the reporting period, Hengda Real Estate distributed dividends of RMB28.4 billion for 2017 to all shareholders. The Group received a dividend of approximately RMB0.5 billion for its 1.76% equity interests in Hengda Real Estate acquired by way of capital contribution of RMB5.5 billion. The dividend rate was 9.1%. The share price of China Evergrande Group, a significant observable input in the fair value measurement of the Group's equity investment in Hengda Real Estate, also increased by 48.5% during the period from 30 June 2018 to the date of this announcement.

Financing

Against the backdrop of deleveraging and tightened liquidity, the Group further strengthened its capital management and financing ability. During the Period, the Group successfully secured a syndicated loan of HK\$10 billion at a cost much less than the loan cost in the last period. The syndicated loan was mainly utilized to replace the original syndicated loan. The optimization of loan portfolio and reduction of financing costs may help safeguard the development of the Group.

As at 30 June 2018, the Group's total bank and other borrowings amounted to HK\$26,076.7 million (31 December 2017: HK\$22,903.2 million), of which HK\$20,335.2 million were floating-rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK\$17,107.6 million, representing approximately 65.6% of the total borrowings, and short-term loans were HK\$8,969.1 million, representing approximately 34.4% of the total borrowings. Borrowings from Hong Kong and overseas amounted to HK\$13,054.4 million, representing approximately 50.1% of the total borrowings, and the remaining were borrowings from mainland China, representing approximately 49.9% of the total borrowings. During the Period, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.9% per annum.

As at 30 June 2018, the Group's cash balance (including restricted cash) was HK\$9,348.9 million (31 December 2017: HK\$12,984.1 million), of which approximately 90.2% and 9.8% were denominated in Renminbi and other currencies (mainly in US\$ and HK\$) respectively.

As at 30 June 2018, the Group had net assets (excluding non-controlling interests) of HK\$40,107.6 million (31 December 2017: HK\$41,468.2 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 41.7% and the net gearing ratio with the liabilities including loan from shareholder of the parent and all other interest-bearing liabilities was 67.5%. The gross gearing ratio (being the ratio of total liabilities over total assets) was 60.8%.

Financial Position

<i>HK\$ million</i>	As at 30 June 2018	As at 31 December 2017
Bank and other borrowings	26,076.7	22,903.2
– Long-term borrowings	17,107.6	14,765.6
– Short-term borrowings	8,969.1	8,137.6
Due to the ultimate holding company	4,831.5	5,107.3
Cash (including restricted cash)	9,348.9	12,984.1
Net gearing ratio with the liabilities including bank and other borrowings only	41.7%	23.9%
Net gearing ratio with the liabilities including all interest-bearing liabilities	67.5%	43.5%

Effect of Exchange Rate Fluctuation

The Group's assets are mainly denominated in Renminbi. 49.9% of the bank and other borrowings are denominated in Renminbi, while 50.1% are denominated in HK\$ and US\$. HK\$ is adopted as the reporting currency in the Group's financial statements. During the Period, the effect of the decrease in RMB exchange rate on the Group's finance was mainly reflected in the depreciation of the asset and earnings denominated in Renminbi against HK\$, the reporting currency, of HK\$515.7 million, which has been included in other comprehensive income. The Group will closely monitor and proactively avert foreign exchange risk through various ways.

Land Appreciation Tax ("LAT")

During the Period, the Group recorded LAT of HK\$1,352.0 million, representing 12.0% of turnover. The LAT mainly arose from Shum Yip Dongling. Due to higher assessable profit of Shum Yip Dongling, it was subject to a higher LAT rate and larger amount of LAT.

Other Operating Expenses

During the Period, the Group recorded impairment losses related to the financial assets carried at amortised cost of HK\$141.6 million in other operating expenses, which resulted in an increase of 214.3% over the same period of the last year.

Pledge of Assets and Contingent Liabilities

As at 30 June 2018, the Group had total loans of HK\$414.4 million (31 December 2017: HK\$402.9 million) that were pledged with assets (please refer to note 12 to the financial information for details).

As at 30 June 2018, the Group had provided guarantees to a maximum of HK\$7,122.0 million (31 December 2017: HK\$6,556.1 million) to banks for housing loans extended by the banks to the purchasers of the Group's properties (please refer to note 15 to the financial information for details).

Employees and Remuneration Policy

As at 30 June 2018, the Group employed 18,548 employees (2017: 18,293) of whom 39 were stationed in Hong Kong (mainly managerial and finance related personnel), and the rest were in mainland China. The total remuneration for the six months ended 30 June 2018 (excluding remuneration of the Directors) amounted to approximately HK\$726.9 million (2017: HK\$617.8 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.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK7.00 cents per share for the six months ended 30 June 2018 (2017: HK7.00 cents) payable on or about Monday, 19 November 2018 to shareholders whose names appear on the register of members of the Company on Wednesday, 12 September 2018.

The interim 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 scrip 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 about Tuesday, 16 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 11 September 2018, to Wednesday, 12 September 2018 (both dates inclusive), during which period no transfers of shares will be registered. To qualify for the interim 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 no later than 4:30 p.m. on Monday, 10 September 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 six months ended 30 June 2018.

AUDIT COMMITTEE

As at the date of this announcement, 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 and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2018.

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 Period.

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 Period.

By Order of the Board
SHENZHEN INVESTMENT LIMITED
LU Hua
Chairman

Hong Kong, 27 August 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. WU Wai Chung, Michael, Mr. LI Wai Keung and Dr. WONG Yau Kar, David are the independent non-executive directors of the Company.