深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

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

2018 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- The Group achieved a revenue of HK$16,642.8 million, representing a significant increase of 62.3% over the last year; the gross profit margin was 35.9%;
- The Group achieved gross profits of HK$5,971.0 million, representing a significant increase of 68.1 % over the last year;
- Profit attributable to equity shareholders was HK$3,415.2 million, representing a decrease of 31.0% over 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$3,148.3 million;
- Basic earnings per share were HK41.93 cents, representing a decrease of 34.1% over the last year;
- Sales revenue booked was HK$12,062.6 million in property development business, representing a significant increase of 89.0% over the last year; the gross profit margin of property development and sales was 40.2%;
- Non-cash losses resulting from the fluctuation of fair value of financial assets were HK$850 million;
- Finance costs bore a rate of 4.8% per annum; net gearing ratio (including all interest-bearing liabilities) was 54.2%;
- The Board recommends 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 2018 together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Notes	**2018**	2017 *(Note)*
		$'000	*$'000*
Revenue	*5*	**16,642,765**	10,254,496
Cost of sales		**(10,671,784)**	(6,703,088)
Gross profit		**5,970,981**	3,551,408
Other income and gains	*6*	**877,769**	566,139
Gain on disposal of subsidiaries		**10,364**	3,676,757
Decrease in fair value of financial assets at fair value through profit or loss, net		**(849,929)**	(48)
Increase in fair value of investment properties		**979,924**	1,161,684
Increase in fair value upon transfer to investment properties		**302,943**	96,808
Selling and distribution expenses		**(261,383)**	(232,117)
Administrative expenses		**(947,784)**	(884,183)
Other operating expenses		**(287,816)**	(368,977)
Finance costs	*7*	**(882,699)**	(747,532)
Share of profits less losses of joint ventures and associates		**1,890,638**	844,743
Profit before taxation	*8*	**6,803,008**	7,664,682
Income tax expense	*9*	**(3,104,271)**	(2,465,462)
Profit for the year		**3,698,737**	5,199,220
Attributable to:			
Equity shareholders of the Company		**3,415,223**	4,950,941
Non-controlling interests		**283,514**	248,279
		3,698,737	5,199,220
Earnings per share	*10*		
Basic		**HK41.93 cents**	HK63.64 cents
Diluted		**HK41.87 cents**	HK63.42 cents

Note: 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	2018	2017 *(i)*
	$'000	*$'000*
Profit for the year	**3,698,737**	5,199,220
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 securities: net movement in fair value reserve (recycling) *(ii)*		
– Changes in fair value	**–**	1,154,816
– Reclassification adjustments for amounts transferred to profit or loss on disposal	**–**	(15,468)
– Income tax effect	**–**	(284,837)
	–	854,511
– Share of other comprehensive income of joint ventures and associates	**(235,317)**	223,500
– Cumulative exchange differences reclassified to profit or loss upon disposal of subsidiaries	**6,830**	(93,486)
– Exchange differences on translation of foreign operations	**(2,581,404)**	3,323,009
	(2,809,891)	4,307,534
Other comprehensive income for the year, net of tax	**(2,809,891)**	4,312,833
Total comprehensive income for the year	**888,846**	9,512,053
Attributable to:		
Equity shareholders of the Company	**775,332**	9,000,057
Non-controlling interests	**113,514**	511,996
	888,846	9,512,053

Notes:

(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

(Expressed in Hong Kong dollars)

	Notes	**31 December 2018**	31 December 2017 *(Note)*
		$'000	*$'000*
Non-current assets			
Property, plant and equipment		**4,666,465**	4,746,901
Prepaid land lease payments		**34,455**	37,349
Goodwill		**366,929**	379,302
Investment properties		**29,143,111**	26,939,445
Interests in associates		**4,951,156**	4,431,186
Interests in joint ventures		**6,215,166**	4,816,707
Other financial assets	*13*	**9,077,347**	10,884,868
Deferred tax assets		**2,072,491**	2,028,151
Total non-current assets		**56,527,120**	54,263,909
Current assets			
Biological assets		**1,537**	333
Completed properties held for sale		**6,265,723**	5,977,395
Properties under development		**38,097,509**	39,710,990
Inventories		**131,885**	115,699
Trade receivables	*12*	**578,468**	371,047
Prepayments, deposits and other receivables		**3,759,648**	3,799,165
Other financial assets	*13*	**3,068**	4,517
Restricted cash		**2,822,965**	1,817,022
Cash and cash equivalents		**9,832,226**	11,167,070
Total current assets		**61,493,029**	62,963,238

	Notes	**31 December 2018**	31 December 2017 *(Note)*
		$'000	*$'000*
Current liabilities			
Interest-bearing bank and other borrowings		**5,898,502**	8,137,680
Trade payables	*14*	**1,956,668**	1,622,921
Other payables and accruals		**12,162,041**	22,522,866
Contract liabilities		**11,232,109**	–
Due to the immediate holding company		**1,233,548**	1,359,741
Due to the ultimate holding company		**4,734,953**	5,107,312
Tax payable		**7,251,663**	7,973,704
Total current liabilities		**44,469,484**	46,724,224
Net current assets		**17,023,545**	16,239,014
Total assets less current liabilities		**73,550,665**	70,502,923
Non-current liabilities			
Interest-bearing bank and other borrowings		**19,362,263**	14,765,566
Deferred income		**22,881**	28,187
Due to the immediate holding company		**–**	781,549
Deferred tax liabilities		**8,721,825**	9,826,789
Total non-current liabilities		**28,106,969**	25,402,091
Net assets		**45,443,696**	45,100,832
Capital and reserves			
Share capital		**20,688,259**	19,712,476
Reserves		**21,015,716**	21,755,765
Total equity attributable to equity shareholders of the Company		**41,703,975**	41,468,241
Non-controlling interests		**3,739,721**	3,632,591
Total equity		**45,443,696**	45,100,832

Note: 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.

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 4.

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 2018 and 2017 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 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) and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's 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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The 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 "Stock Exchange").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial information.

The consolidated financial information for the year ended 31 December 2018 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;

– equity investments; and

– biological assets.

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.

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) 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.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	$'000
Retained profits	
Transferred from fair value reserve (recycling) relating to financial assets now measured at fair value through profit or loss (FVPL)	**865,997**
Recognition of additional expected credit losses ("ECL") on financial assets measured at amortised cost	**(262,342)**
Related tax	**63,062**
Net increase in retained profits at 1 January 2018	**666,717**
Fair value reserve (recycling)	
Transferred to retained profits relating to financial assets now measured at FVPL	**(865,997)**
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests at 1 January 2018	**(49,562)**

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

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

The Group has been impacted by HKFRS 15 in relation to capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract liabilities.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 January 2018:

	$'000
Retained profits	
Finance costs	**11,048**
Related tax	**(2,762)**
Net decrease in retained profits at 1 January 2018	**8,286**

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) *$'000*	**Hypothetical amounts under HKASs 18 and 11 (B)** *$'000*	**Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B)** *$'000*
Line items in the consolidated statement of profit or loss for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	16,642,765	16,339,105	303,660
Cost of sales	(10,671,784)	(10,379,172)	(292,612)
Gross profit	5,970,981	5,959,933	11,048
Finance costs	(882,699)	(866,824)	(15,875)
Profit before taxation	6,803,008	6,807,835	(4,827)
Income tax expense	(3,104,271)	(3,105,505)	1,234
Profit for the year	3,698,737	3,702,330	(3,593)
Profit attributable to equity shareholders of the Company	3,415,223	3,418,816	(3,593)
Earnings per share			
Basic	HK 41.93 cents	HK 41.98 cents	HK (0.05) cents
Diluted	HK 41.87 cents	HK 41.91 cents	HK (0.04) cents

	Amounts reported in accordance with HKFRS 15 (A) *$'000*	Hypothetical amounts under HKASs 18 and 11 (B) *$'000*	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) *$'000*
Line items in the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	888,846	889,272	(426)
Total comprehensive income attributable to the equity shareholders of the Company	775,332	775,758	(426)
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Properties under development	38,097,509	37,963,953	133,556
Total current assets	61,493,029	61,359,473	133,556
Deferred tax assets	2,072,491	2,068,667	3,824
Total non-current assets	56,527,120	56,523,296	3,824
Other payables and accruals	(12,162,041)	(23,245,296)	11,083,255
Contract liabilities	(11,232,109)	–	(11,232,109)
Total current liabilities	(44,469,484)	(44,320,630)	(148,854)
Net current assets	17,023,545	17,038,843	(15,298)
Total assets less current liabilities	73,550,665	73,562,139	(11,474)
Net assets	45,443,696	45,445,170	(11,474)
Reserves	(21,015,716)	(21,027,190)	11,474
Total equity attributable to equity shareholders of the Company	(41,703,975)	(41,715,449)	11,474
Total equity	(45,443,696)	(45,445,170)	11,474

	Amounts reported in accordance with HKFRS 15 (A) *$'000*	Hypothetical amounts under HKASs 18 and 11 (B) *$'000*	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) *$'000*
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Profit before taxation	6,803,008	6,807,835	(4,827)
Finance costs	882,699	866,824	15,875
Increase in properties under development	(12,762,749)	(12,629,193)	133,556
Decrease in other payables and accruals	(9,064,876)	2,311,837	(11,376,713)
Increase in contract liabilities	11,232,109	–	11,232,109

The significant differences arise as a result of the changes in accounting policies described above.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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 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, provision of construction services 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 tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax 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.

2018	Property development $'000	Property investment $'000	Property management $'000	Manufacture $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	12,062,584	983,375	2,103,756	342,368	1,150,682	16,642,765
Intersegment sales	68,318	8,691	90,682	–	44,899	212,590
	12,130,902	992,066	2,194,438	342,368	1,195,581	16,855,355
Reconciliation						
Elimination of intersegment sales						(212,590)
Revenue						16,642,765
Segment results before increase in fair value of investment properties	5,543,372	1,019,050	133,208	25,636	(35,587)	6,685,679
Increase in fair value of investment properties	–	979,924	–	–	–	979,924
Increase in fair value upon transfer to investment properties	–	302,943	–	–	–	302,943
Segment results after increase in fair value of investment properties	5,543,372	2,301,917	133,208	25,636	(35,587)	7,968,546
Reconciliation						
Elimination of intersegment results						(68,389)
Other income and gains						877,769
Fair value loss on financial assets measured at fair value through profit or loss, net						(849,929)
Corporate and other unallocated expenses						(242,290)
Finance costs						(882,699)
Profit before tax						6,803,008
Segment assets	54,617,333	33,473,099	503,834	143,903	3,549,763	92,287,932
Reconciliation						
Corporate and other unallocated assets						25,732,217
Total assets						118,020,149
Segment liabilities	21,183,749	3,018,511	880,176	78,470	319,282	25,480,188
Reconciliation						
Corporate and other unallocated liabilities						47,096,265
Total liabilities						72,576,453
Other segment information:						
Depreciation	68,459	26,728	23,480	3,510	74,394	196,571
Amortisation of prepaid land lease payments	–	–	–	–	1,222	1,222
Interests in associates	2,402,741	126,301	316	15,133	2,406,665	4,951,156
Interests in joint ventures	5,914,717	88,912	18,777	–	192,760	6,215,166
Additions to non-current segment assets during the year	54,438	315,326	18,671	2,791	218,082	609,308

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
Increase 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 gain on financial instruments, net						(48)
Corporate and other unallocated expenses						(133,742)
Finance costs						(747,532)
Profit before tax						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

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

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.

5 REVENUE

Revenue, represents proceeds from the sale of properties, commercial and industrial goods, rental income, management fee income and others. All of the revenue of the Group is recognised at a point in time except for property management fee income, which is recognised over time.

(i) Disaggregation of revenue from contracts with customers by major products and service lines is as follows:

	2018	2017
	$'000	*$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sale of completed properties	**12,062,584**	6,381,479
Management fee income	**2,103,756**	1,820,429
Sale of commercial and industrial goods	**342,368**	325,645
Others	**1,150,682**	797,096
	15,659,390	9,324,649
Revenue from other sources		
Gross rental income from investment properties	**983,375**	929,847
	16,642,765	10,254,496

Note: The Group has initially applied HKFRS 15 using the cumulative effective method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 3(ii)).

The Group's customer base is diversified and none of the customer with whom transactions have exceed 10% of the Group's revenues.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied under the Group's existing contracts is $16,255,668,000. This amount mainly represents revenue expected to be recognised in the future from pre-completion sales contracts for properties under development. This amount includes the interest component of pre-completion properties sales contracts under which the Group obtains significant financing benefits from the customers. The Group will recognise the expected revenue in future, in the case of the properties under development for sale, when the customers has the ability to direct the use of the property, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for commercial and industrial goods such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of commercial and industrial goods that had an original expected duration of one year or less.

6 OTHER INCOME AND GAINS

	2018	2017
	$'000	*$'000*
Other income and gains		
Interest income	**257,684**	415,851
Dividend income	**594,840**	–
Gain on disposal of available-for-sale investments	**–**	15,306
Government grant	**6,834**	5,047
Others	**18,411**	129,935
	877,769	566,139

7 FINANCE COSTS

	2018	2017
	$'000	*$'000*
Interest on:		
Bank loans	**1,094,531**	768,844
Other borrowings	**219,765**	214,670
Loans from the ultimate holding company	**180,822**	144,666
Loans from the immediate holding company	**36,182**	54,862
Loans from fellow subsidiaries	**128,559**	2,895
Loans from a joint venture	**55,973**	16,836
Loans from non-controlling shareholders	**4,662**	8,924
Total interest expense on financial liabilities not at fair value through profit or loss	**1,720,494**	1,211,697
Less: Interest expense capitalised into properties under development	**(837,795)**	(464,165)
	882,699	747,532

* The borrowing costs have been capitalised at a rate of 3.02% – 4.76% per annum (2017: 3.18% – 4.56%).

8 PROFIT BEFORE TAXATION

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

(a) Cost of sales

	2018	2017
	$'000	*$'000*
Cost of properties and inventories sold	**7,217,800**	3,872,854
Cost of services provided	**3,453,984**	2,830,234
	10,671,784	6,703,088

(b) Staff costs

	2018 *$'000*	2017 *$'000*
Wages and salaries	**1,496,795**	1,466,182
Equity-settled share option expense	**42,130**	22,867
Retirement scheme contributions	**149,358**	143,686
	1,688,283	1,632,735

(c) Other items

	2018 *$'000*	2017 *$'000*
Amortisation of prepaid land lease payments	**1,222**	1,149
Depreciation	**196,571**	216,252
Impairment losses		
– trade receivables		
– impairment recognised	**52,706**	882
– reversal of impairment loss	**(1,113)**	(5,357)
	51,593	(4,475)
– prepayments, deposits and other receivables		
– impairment recognised	**22,932**	1,855
– reversal of impairment loss	**(54,337)**	(493)
	(31,405)	1,362
– other financial assets		
– impairment recognised	**462**	–
– reversal of impairment loss	**(17,765)**	–
	(17,303)	–
Operating leases charges	**25,433**	22,653
Net foreign exchange loss/(gain)	**74,451**	(67,870)
Rental income on investment properties less direct operating expenses of $217,195,000 (2017: $202,889,000)	**(766,180)**	(726,958)
Loss on disposal of property, plant and equipment	**3,414**	22,489
Auditor's remuneration		
– audit services	**5,500**	5,350
– other services	**–**	1,061
	5,500	6,411

9 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 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.

	2018	2017
	$'000	*$'000*
Current tax:		
Mainland China CIT	**1,440,816**	1,271,831
Withholding tax on dividend	**242,723**	58,528
LAT in mainland China	**2,154,594**	810,413
Deferred tax		
Mainland China CIT	**(401,756)**	343,944
Withholding tax on dividend	**(67,545)**	47,103
LAT in mainland China	**(264,561)**	(66,357)
Total tax charge for the year	**3,104,271**	2,465,462

10 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 $3,415,223,000 (2017: $4,950,941,000) and the weighted average of 8,144,123,420 ordinary shares (2017: 7,779,309,016) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	Number of shares	
	2018	2017
Issued ordinary shares at 1 January	**8,058,124,983**	7,649,164,458
Effect of shares issued in respect of scrip dividends	**84,830,904**	106,950,020
Effect of share options exercised	**1,167,533**	23,194,538
Weighted average number of ordinary shares at 31 December	**8,144,123,420**	7,779,309,016

(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 $3,415,223,000 (2017: $4,950,941,000) and the weighted average number of ordinary shares of 8,156,474,013 shares (2017: 7,806,406,949), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2018	2017
Weighted average number of ordinary shares at 31 December	**8,144,123,420**	7,779,309,016
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**12,350,593**	27,097,933
	8,156,474,013	7,806,406,949

11 DIVIDENDS

	2018	2017
	$'000	*$'000*
Dividends recognised as distribution during the year:		
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
Interim – HK7.00 cents (2017: HK7.00 cents) per ordinary share (i)/(iii)		
Scrip shares	**390,163**	346,418
Cash	**186,060**	210,085
	576,223	556,503
Dividends proposed after the end of the reporting period		
Final dividend of HK11.00 cents		
(2017: final dividend of HK11.00 cents) per ordinary share (i)/(iv)	**928,407**	886,449

(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 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) The Company declared an interim dividend of HK7.00 cents per share in respect of year ended 31 December 2018 amounted to $576,223,000, of which $186,060,000 were paid in cash and the remaining balance of $390,163,000 were settled in the form of 168,464,032 scrip shares on 19 November 2018.

The Company declared an interim dividend of HK7.00 cents per share in respect of year ended 31 December 2017 amounted to $556,503,000, of which $210,085,000 were paid in cash and the remaining balance of $346,418,000 were settled in the form of 91,403,262 scrip shares on 20 November 2017.

(iv) On 28 March 2019, the board of directors recommends a final dividend of HK11.00 cents per share for the year ended 31 December 2018 (2017: final dividends of HK11.00 cents per share and special dividend of nil per share). The proposed final dividends 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.

The amount of the final dividend for 2018 was calculated on the basis of 8,440,059,985 shares in issue as at 28 March 2019.

12 TRADE RECEIVABLES

	31 December 2018 **$'000**	1 January 2018 *$'000*	31 December 2017 *$'000*
Trade receivables	**697,064**	405,202	405,202
Less: loss allowance account *(Note)*	**(118,596)**	(74,178)	(34,155)
	578,468	331,024	371,047

Note: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables.

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:

	31 December 2018 **$'000**	31 December 2017 *$'000*
Within one year	**430,387**	341,866
One to two years	**140,548**	29,181
Two to three years	**7,533**	–
	578,468	371,047

13 OTHER FINANCIAL ASSETS

	31 December 2018 **$'000**	1 January 2018 *$'000*	31 December 2017 *$'000*
Current:			
Financial assets measured at FVPL			
– Listed equity investments in Hong Kong	**3,068**	4,517	4,517
Non-current:			
Financial assets measured at FVPL			
– Listed equity investments in mainland China *(note (iii))*	**33,437**	37,591	–
– Unlisted equity investments in mainland China *(note (i) and (iii))*	**6,261,172**	7,698,699	–
– Derivative financial instrument *(note (i))*	**335,542**	70,449	70,449
	6,630,151	7,806,739	70,449
Financial assets classified as available-for-sale under HKAS39			
– Other financial assets *(note (i) and (iii))*	**–**	–	7,798,558
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity investments in mainland China *(note (iii))*	**3,832**	62,268	–
Financial assets measured at amortised cost			
– Other long term assets *(note (ii))*	**2,549,654**	3,015,861	3,015,861
Less: Loss allowance	**(106,290)**	(128,890)	–
	2,443,364	2,886,971	3,015,861
	9,077,347	10,755,978	10,884,868

Notes:

(i) The balance mainly represented the Group's equity investment and derivative financial instruments arising from the agreements with Hengda Real Estate Group Company Limited ("Hengda Real Estate") and its controlling parties ("Hengda Investments") of $6,596,714,000 (2017: $7,769,148,000), the details of which are set out below:

On 31 May 2017, 28 June 2017 and 6 November 2017, the Group entered into investment agreements ("Investment Agreements") with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate"), Hengda Real Estate, both of which are subsidiaries of China Evergrande Group, and Mr. Hui Ka Yan ("Mr. Hui", a director and controlling shareholder of China Evergrande Group). Pursuant to the Investment Agreements, the Group agreed to contribute RMB5,500,000,000 (equivalent to $6,337,100,000) to the capital of Hengda Real Estate for acquisition of approximately 2.0522% of the enlarged equity interest of Hengda Real Estate at the date of contribution, which was subsequently diluted to 1.7626% of the enlarged equity interest of Hengda Real Estate after the capital contributions from other investors in November 2017.

Hengda Real Estate is undergoing a major assets reorganisation such that Kailong Real Estate, as the holding company of Hengda Real Estate, will become the controlling shareholder of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co. Ltd., a company listed on the Shenzhen Stock Exchange, after the major assets reorganisation ("Proposed Reorganisation"). If the Proposed Reorganisation of Hengda Real Estate is not completed by 31 January 2020 and the failure to complete is not caused by reasons attributable to the Group, the Group is entitled to have the right within two months of the expiry of such deadline to demand Kailong Real Estate to either:

(i) buy back the entire equity interest in Hengda Real Estate held by the Group at the original amount of capital contributed by it, provided that Kailong Real Estate may choose not to buy back such equity interest from the Group, in which case, the Group will have the right to request Mr. Hui to buy back the entire equity interest held by the Group at the original amount of capital contributed by it; or

(ii) transfer additional shares, which are equivalent to 50% of the equity interest held by the Group in Hengda Real Estate on the signing of the compensation agreement (excluding any additional equity interest acquired by the Group after the date of the Investment Agreements), to the Group at nil consideration.

In addition, under the terms of the Investment Agreements, Kailong Real Estate and Hengda Real Estate have undertaken to the Group that the net profit of Hengda Real Estate for the three financial years of 2017, 2018 and 2019 ("Performing Undertaking Period") shall not be less than RMB24.3 billion, RMB50 billion and RMB55 billion, respectively. If the net profit of Hengda Real Estate for any financial year in the Performance Undertaking Period is less than the amount for that financial year, the proportional dividend to be paid by Hengda Real Estate to the Group will be adjusted upward in accordance with the formulae specified in the Investment Agreements. During the year ended 31 December 2018, the Group has received a dividend of $593,030,000 from Hengda Real Estate. During the year ended 31 December 2018, there was a decrease in fair value in respect of Hengda Investments of $845,962,000, which was recognised in the consolidated statement of profit or loss.

The Group has undertaken to Hengda Real Estate and its holding company, Kailong Real Estate, that it will not transfer its interests in Hengda Real Estate or create any encumbrances over such interests without the consent of Kailong Real Estate for a period of three years from completion of the capital contribution.

(ii) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 of $128,890,000 was made to recognise additional ECLs on other long term assets. As at 31 December 2018, other long term assets mainly represented non-current receivables from a government authority of $1,415,494,000 (2017: $1,920,687,000), loans to a joint venture of $1,013,478,000 (2017: $1,095,174,000) and associates of $14,392,000 (2017: nil).

(iii) Financial assets classified as available-for-sale under HKAS 39 of $7,798,558,000 were reclassified to equity securities designated at FVOCI (non-recycling) of $62,268,000, listed equity investments in mainland China under financial assets measured at FVPL of $37,591,000 and unlisted equity investments in mainland China under financial assets measured at FVPL of $7,698,699,000 upon the initial application of HKFRS 9 at 1 January 2018.

14 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:

	2018	2017
	$'000	*$'000*
Within one year	**1,206,283**	779,004
One to two years	**327,110**	358,440
Two to three years	**188,902**	175,444
Over three years	**234,373**	310,033
	1,956,668	1,622,921

The total amounts of the trade payables are non-interest-bearing. All the trade payables are expected to be settled within one year.

15 PLEDGE OF ASSETS

Bank loans amounting to $373,343,000 (2017: $402,780,000) were secured by certain of the Group's assets with carrying amounts as below:

(i) land and buildings in mainland China of approximately $646,862,000 (2017: $699,057,000);

(ii) properties under development of $1,111,319,000 (2017: $Nil); and

(iii) investment properties of approximately $497,515,000 (2017: $521,752,000).

In addition, Shum Yip Group, the ultimate holding company, has guaranteed certain of the Group's bank loans of $2,853,250,000 as at 31 December 2018 (2017: $2,990,750,000).

16 CAPITAL COMMITMENTS

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

	2018	2017
	$'000	*$'000*
Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:		
Contracted, but not provided for	**7,343,032**	8,717,238

In addition to this, as disclosed in the Company's announcement dated 14 July 2017, the Group agreed a maximum capital contribution to a related party, Shum King Limited, of $3,000,000,000 for its development of a piece of land in Hong Kong. As at 31 December 2018, the Group had an outstanding capital commitment to Shum King Limited of $2,007,500,000 (2017: $2,032,500,000).

17 CONTINGENT LIABILITIES

(a) Financial guarantees to purchasers of the Group's properties

As at 31 December 2018, the Group has given guarantees to a maximum extent of approximately $5,866,018,000 (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.

(b) Financial guarantees to a related party of the Group

As at 31 December 2018, the Group has given guarantees amounting of RMB129,948,000 in respect of a bank loan to Guangzhou Pik Sum Real Estate Development Company Limited, a joint venture of the Group.

18 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 2018 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'S STATEMENT

In 2018, China's economy has further shifted away from high-speed growth to high-quality development. The global macro-environment was complicated and changing with rising downward pressure, tightened overall liquidity and wider fluctuations in the capital market, which brings various challenges to business operation. "House is a place to live instead of a tool for speculation" has been a keynote for the Chinese real estate development and the effect of industry regulation has gradually appeared. Impacted by the new real estate control policy issued at the end of July and the fluctuations in capital market, the real estate market of Shenzhen became depressed in the second half of the year. As a result, annual trading volume was flat with the previous year and, due to the policy of price restriction, trading price maintained stable. There were also changes in the real estate market in the third-tier and fourth-tier cities in the second half of the year and some cities saw recovery in both price and volume.

Under the mixed external environment, the Group was able to overcome various difficulties and maintain a stable results performance by grasping market opportunity to expand quality land resource and strengthening finance and financial support on the one hand, while on the other hand launching the mixed-ownership reform on certain of its operating platforms, a solid step to its growth transformation, so as to lay a sound foundation for its medium and long term development.

2018 Annual Results

During the year, the Group achieved a turnover of HK$16,642.8 million, representing an increase of 62.3% over the last year. Gross profit was HK$5,971.0 million, representing an increase of 68.1% over the last year. Profit attributable to equity shareholders of the Company was HK$3,415.2 million, representing a decrease of 31.0% over the last year. Against 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 by the Group during the last year and affected by the non-cash loss arising from changes in fair value of the equity interests in Hengda Real Estate held by the Group, profit attributable to shareholders decreased. If excluding the net effect of the changes in fair value of investment properties and fair value of financial assets attributable to the Group, profit attributable to equity shareholders of the Company was HK$3,148.3 million. Basic earnings per share were HK41.93 cents, representing a decrease of 34.1% over the last year. The Board recommends the payment of a final dividend of HK11.00 cents per share for 2018 in cash (with a scrip dividend alternative). 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.

Significant Sales Increase

During the year, the Group realized contracted sales of approximately RMB16.45 billion, representing an increase of 43.1% over the last year. Its major projects include Shum Yip Zhongcheng, Taifu Square and Shum Yip Dongling in Shenzhen, Ma'anshan Shum Yip Huafu and Huizhou Gaobangshan No.1. Approximately 79% of the Group's contracted sales was contributed by Shenzhen projects.

The Group raised its annual sales forecast substantially in view of the stable market environment in the first half of the year and by adapting to the market situation. However, due to unexpected sudden change in market environment, sales of Shum Yip Zhongcheng (apartments and offices) and Taifu Square encountered great difficulties during their launch in late October when the market was in a depressed period. The Group overcame the odds through block trades, a breakthrough in the sales, and recorded contracted sales of RMB16.45 billion. It achieved the sales target of RMB15 billion set by the Group at the beginning of the year and posted an increase of approximately 43.1% over the last year. Even though the contracted sales failed to meet the Group's mid-year expectation, it was never easy being able to realize such significant increase.

Expansion of Quality Land Resources

During the year, the Group successfully implemented the Wuhan Bio Valley Project (武漢生物谷項目) by seizing the favourable market opportunities. Located at East Lake High-tech Development Zone, Wuhan, the Bio Valley Project covers 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 prime residential community.

In addition, the Group won the bid for a residential and commercial project in Yanghu, Yuelu District, Changsha (site area: approximately 80,000 square meters; capacity building area: approximately 185,000 square meters) and a residential project in Haibin Bay, Chenghua District, Chengdu (site area: 25,000 square meters; capacity building area: approximately 41,000 square meters) at a price of RMB1.21 billion and RMB0.33 billion respectively.

The development of Guangdong-Hong Kong-Macao Greater Bay Area has been formally upgraded to a national strategy and its outline development plan has been released recently. The Group continues to adhere to its development strategy of "focusing on the Greater Bay Area, intensifying development in Shenzhen and expanding land resources". During the year, the Group entered into relocation and compensation agreements with the original owners including subsidiaries of Shum Yip Group, the ultimate holding company of the Company, and obtained the qualification of development capacity in respect of the urban renewal project of Xinhongcheng (信宏城城市更新項目), which is located at Guangming New District, Shenzhen with a site area of approximately 90,000 square meters and 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 project will be re-developed into a modern community for both residential and commercial use.

In addition, the urban redevelopment projects including Chegongmiao and Bagualing in Shenzhen have been expediated. Besides, Shum Yip Group, the ultimate holding company of the Company, made an investment to Shenzhen-Hong Kong Science and Technology Innovative Cooperation Zone Development Co. LTD (深港科技創新合作區發展有限公司) to hold 25% equity interests in the company, which provides a valuable opportunity to the Group to participate in the construction of the Greater Bay Area, especially the development and operation of Shenfang High-Tech Park in the Shenzhen-Hong Kong Science and Technology Innovation Special Cooperation Zone (深港科技創新特別合作區) (Hetao area).

Overall Commencement of Mixed-Ownership Reform on Asset-Light Operation Business

During the year, the Group commenced the mixed-ownership reform on its asset-light operation business in an overall manner. Four asset-light operation and management companies were established in respect of each of the following asset-light operation businesses: the operation of wisdom park, commercial operation, entrusted construction and property management, with in place scheme of mixed-ownership reform comprised of the introduction of strategic investors and employee stock ownership. Supported by the State-owned Assets Supervision and Administration Commission (SASAC) of Shenzhen, the four operation and management companies were admitted to the first batch of mixed-ownership reform, symbolizing the overall commencement of mixed-ownership reform. The mixed-ownership reform will allow the Group to launch mechanism innovation for more vitality, thus laying a solid foundation for the expansion of operation market.

The entrusted construction business progressed effectively during the year. The Group was admitted to the preliminary list of entrusted construction suppliers for the redevelopment at city level, and of Futian, Luohu, Bao'an, Pingshan and the demolition and resettlement of Bao'an. In addition, the Group secured various projects including the Phase II of the space corridor in Futian CBD, expansion of Xingzhi Senior Vocational School (行知職業技術學校) in Luohu, entrusted construction of public service facilities in Pingshan. It also collaborated with some state-owned enterprises in Futian in demolishing and resettling Xiangmi Ercun (香蜜二村) and Shuiwu Dayuan (水務大院).

Healthy Financial Position

Under the background of tightened liquidity throughout the year, the Group made active plans to further strengthen its integrated fund planning and finance management to improve the efficiency of fund operation. During the year, the Group obtained a syndicated loan of HK$10 billion, and maintained borrowing costs at a lower level of 4.8% and gearing ratio at a reasonable level by means of debt replacement and optimization of loan portfolio. As of 31 December 2018, net gearing ratio (including all interest-bearing liabilities) of the Group was 54.2%.

Outlook

In 2019, both domestic and external economic environment tend to be more complicated. During the course of formation of new growth momentum of economy and resolving financial risks, various uncertainties appear with rising economic downward pressure, which continues to bring challenges to business operation. Meanwhile, the real estate market in China has undergone profound changes. "House is a place to live instead of a tool for speculation" has been a keynote for the long-term development of the real estate industry, the Government is committed to guiding fund allocation to support the development of the real economy whilst establishing a relatively stable real estate market. In the long run, the real estate market will return to its basics gradually. With the adjustments at policy and capital level, the real estate market in Shenzhen and part of other cities witnessed a slight rebound in trading volume since March 2019. However, the situations were varied in different market segments. The sustainability of the recovering market throughout the year is still uncertain. The Group will pay close attention to the changes in policy and market, explore further trade resources, capture opportunities arising from market, innovate marketing channels and methods and spare no effort to promote sales. In 2019, value of the Group's annual saleable properties is estimated to be approximately RMB36.2 billion. Based on a conservative estimation, the Group's annual sales target is approximately RMB18 billion, increasing by 10% as compared with the actual sales made last year.

Despite the uncertainties in the economic environment in 2019, there are also hidden opportunities. The low point in an economic cycle is usually proved to be a good time for investment. Therefore, on the premise of healthy operation and fund safety, the Group plans to maintain its strategy and expand resources this year to promote its development in a sustainable manner. After five years of effort in strategic priorities and transformation, the Group has made various progress, including improving quality asset, more reasonable regional distribution, enhancing profitability, sufficient financial resources reserve, maintaining net gearing ratio at a low level and abundant cash and adequate resource for development.

Pursuant to the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" (《粵港澳大灣區發展規劃綱要》) formally released on 18 February 2019, the Guangdong-Hong Kong-Macao Greater Bay Area will be developed into a dynamic world-class city cluster, an international center for science and technology innovation with global influence, an important support for the construction of "the Belt and Road Initiative", a demonstration zone of close cooperation between Mainland China, Hong Kong and Macau and a quality community suitable for living, working and travelling. The position of Shenzhen as a national innovation center has been further clarified in the Outline Development Plan. With the interaction of infrastructures in the Greater Bay Area, construction of the innovation ecosystem of "Guangzhou-Shenzhen-Hong Kong-Macau" and the establishment of a modern industrial system in the area, the Guangdong-Hong Kong-Macao Greater Bay Area will be emerged as a vibrant and internationally competitive first-class bay area and world-class city cluster with optimal industrial distribution, rational segregation of duties, complementary strengths and differentiated position.

The establishment of the Guangdong-Hong Kong-Macao Greater Bay Area is a national strategy fostering a new pattern of overall opening-up and a historic opportunity for Shenzhen's high-quality development. As a listed company with years of extensive operation experience in both Shenzhen and Hong Kong, the Group will implement the national strategy for regional development in a proactively manner and take this historic opportunity to realize a growth in line with the economic soar of China and the Greater Bay Area. The Group has commenced the Study on the Strategy of Investment in the Guangdong-Hong Kong-Macao Greater Bay Area (《粵港澳大灣區城市群投資策略研究》) to make research and judgement on the planning, traffic, population and industry of city cluster in the Greater Bay Area. On this basis, the Group will make active investment in the Guangdong-Hong Kong-Macao Greater Bay Area with focus on expansion in Shenzhen, Hong Kong and Guangzhou, and at the same time, keep track of the quality land available in Dongguan (the portion adjacent to Shenzhen), Foshan (the portion adjacent to Guangzhou) and Zhongshan inner city as well as in Huizhou city and the areas along the main traffic lines.

The Group will identify various methods of resource acquisition, including but not limited to 1) deepening cooperation with the ultimate holding company of the Company to increase our land reserves in Shenzhen and the Greater Bay Area; 2) proactively participating in the development of Shenfang High-Tech Park in Shenzhen-Hong Kong Science and Technology Innovation Special Cooperation Zone by capitalizing on the Group's footprint in both Shenzhen and Hong Kong, ability in introducing industrial resources and core advantages in providing sound park operation services to promote the development and operation of the Cooperation Zone; and 3) taking the opportunity arising from the introduction of Shenzhen's urban renewal experience to Guangdong province to implement all-round transformation of old town, old factory and old village and relying on the Group's experience in urban renewal projects to identify urban renewal opportunities in the key cities constituting the Guangdong-Hong Kong-Macao Greater Bay Area to fully participate in the construction of the Greater Bay Area.

The Group will continue to attach equal importance to the strategy of property development and sales and property holding and operation, rely on its advantages as a state-owned enterprise in resource acquisition, financing cost and cooperation with the government, seize the opportunity from the mixed-ownership reform, increase incentives, promote efficiency and continuously improve its core competitiveness in asset-light operation business, including park operation, property management, business operation, long-term rental apartment operation and project entrusted construction.

In the next five years, sticking to the vision of being a "leader in value creation for urban space", the Group will continue to focus on the Greater Bay Area and intensify its development in Shenzhen. On the premise of healthy operation, the Group will maintain a sound and healthy growth in development and sales volume, and appropriately expand the size of investment properties and long-term rental apartments. The Group will enhance the operational capability by optimizing its investment property portfolio, and continuously improve asset quality and returns. Meanwhile, with the introduction of market mechanism through the mixed-ownership reform, the Group will establish an operating service platform with core competitiveness, give full play of its advantage in urban function upgrading and improve the value of urban spaces with the concept of smart industry (智慧園區), smart business (智慧商業) and smart life (智慧人居). I believe, through unremitting efforts, the Group is expected to strategically improve its position from a "real estate developer" to an "operation service provider for urban construction" gradually, achieve a sound, sustainable and steady development and create sustainable and better returns for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

In 2018, the core cities in China continued to undergo stringent policy control, with the real estate market regulation having obvious effect. In addition to "purchase restrictions, credit restrictions and price restrictions", the Shenzhen Municipal Government also launched further policies to strengthen control at the end of July. As a result, the real estate market in Shenzhen took a downturn in the fourth quarter. In the first half of the year, real estate market in the third-tier and fourth-tier cities witnessed a remarkable performance in destocking, while there was a slowdown in the second half of the year as demonstrated by declines in turnover and prices in some cities.

Facing the uncertain external environment, the Group had overcome various odds to push forward each task, including maintaining its performance, expanding land bank in the first-tier and second-tier cities, strengthening financing and financial security, initiating the mixed-ownership reform on the light-asset operation platform and reviewing company strategies to meet the changes in economic environment and revolution of the real estate industry.

During the year, the Group realized revenue of approximately HK$16,642.8 million, representing an increase of 62.3% over the last year. Gross profit margin was 35.9%, representing an increase of approximately 1.3 percentage point over the last year. Gross profit was HK$5,971.0 million, representing an increase of 68.1% over the last year. Profit attributable to equity shareholders of the Company was HK$3,415.2 million, representing a decrease of 31.0% over the last year. Against 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 by the Group during the last year and affected by the non-cash loss arising from changes in fair value of the equity interests in Hengda Real Estate held by the Group, profit attributable to equity shareholders of the Company decreased. If excluding the net effect of changes in fair value of investment properties and changes in fair value of financial assets attributable to the Group, profit attributable to equity shareholders of the Company was HK$3,148.3 million. Basic earnings per share were HK41.93 cents, representing a decrease of 34.1% over the last year.

Property Development Business

Sales Revenue Booked

During the year, the Group recorded property sales booked of approximately 399,000 square meters (excluding interests attributable to the associates and joint ventures of the Group), representing a decrease of 17.2% over the last year, and achieved net revenue in property sales of approximately RMB10,185.4 million (equivalent to HK$12,062.6 million) (net of value-added tax), representing an increase of 89.0% over the last year. Gross profit margin of property development and sales was 40.2%, representing an increase of 0.9 percentage points over the last year. During the year, the percentage of Shenzhen projects in the sales revenue booked was 79.0%. During the year, the average gross profit margin for Shenzhen projects of the Group was approximately 39.7%, whereas the average gross profit margin for projects in other cities was approximately 41.9%.

Property Sales Booked in 2018

Property Name	Type	City	Booked Area (sq.m.)	Net Sales (RMB'000)	Unit Price (RMB/sq.m.)
Rui Cheng	Residential	Changsha	35,640	270,699	7,595
Garden Hills	Residential	Huizhou	25,242	220,377	8,730
Wanlin Lake	Residential/shop	Huizhou	2,976	23,395	7,861
Splendid City	Residential	Taizhou	9,526	48,974	5,141
Euro-view Garden	Shop	Dongguan	289	3,281	11,335
Shum Yip City	Residential/apartment/shop	Foshan	39,772	376,172	9,458
Saina Bay	Residential/villa/shop	Heyuan	2,975	26,894	9,040
Jiangyue Bay	Residential/shop	Guangzhou	1,770	37,348	21,096
Guanlan Rose Pavilion	Residential/office	Shenzhen	22,987	596,096	25,932
Nanhu Rose Bay	Residential/villa/shop	Wuhan	2,227	80,260	36,044
Yihu Rose Garden	Residential	Chengdu	551	2,924	5,309
Changzhou Shum Yip Huafu	Residential	Changzhou	26,419	222,246	8,412
Ma'anshan Shum Yip Huafu	Residential	Ma'anshan	108,557	635,319	5,852
UpperHills	Residential	Shenzhen	4,654	561,094	120,574
Royal Spring Garden	Villa	Chaohu	673	8,690	12,907
Shum Yip Dongling	Residential	Shenzhen	100,396	6,341,613	63,166
Bofeng Building	Office	Shenzhen	14,140	547,089	38,690
Xiaonan Street	Residential	Shenyang	284	2,114	7,434
Parking place sales	Parking place		–	180,828	–
Total			**399,078**	**10,185,413**	**–**

Note: 1,619 parking lots were sold.

Contracted Sales

During the year, the Group realized a contracted sales area of approximately 571,000 square meters and contracted sales income of approximately RMB16.45 billion, representing an increase of approximately 43.1% over the last year. The average price per square meter was RMB28,792.

Contracted sales were mainly contributed by projects including Shum Yip Zhongcheng, Taifu Square, Shum Yip Dongling, Ma'anshan Shum Yip Huafu, Gaobangshan No. 1. In addition, block trades had contributed a lot during the year. It recorded an aggregate of approximately RMB8.73 billion of contracted sales from the four projects, namely Shum Yip Zhongcheng, Taifu Square, Guanlan Rose Garden and Bofeng Building, accounting for approximately 53% of the total sales. Shenzhen projects accounted for 79% of total sales, whereas sales for projects beyond Shenzhen performed as expected. Among them, sales for projects in Ma'anshan and Huizhou have exceeded their targets.

Contracted Sales in 2018

Project Name	City	Type	Sales Area (sq.m.)	Sales (RMB million)
Shum Yip Dongling	Shenzhen	Complex	28,511	2,043
Shum Yip Zhongcheng	Shenzhen	Complex	66,932	4,962
Changzhou Shum Yip Huafu	Changzhou	Residential	6,498	34
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	93,690	830
Gaobangshan No. 1	Huizhou	Residential	86,500	830
Jiangyue Bay	Guangzhou	Residential	110	29
Shum Yip City	Foshan	Residential	3,100	107
Saina Bay	Heyuan	Residential	535	6
Garden Hills	Huizhou	Residential	15,841	157
Splendid City	Taizhou	Residential	13,524	80
Euro-view Garden	Dongguan	Residential	239	42
Rui Cheng	Changsha	Residential	15,042	175
Wanlin Lake	Huizhou	Residential	34,527	387
Shum Yip Xihui	Changsha	Residential	54,149	350
Bofeng Building	Shenzhen	Warehouse/ Commercial	9,243	367
Taifu Square	Shenzhen	Complex	76,541	4,229
Guanlan Rose Garden	Shenzhen	Residential	18,717	440
Yihu Rose Garden	Chengdu	Residential	21,911	176
Nanhu Rose Bay	Wuhan	Complex	3,687	88
Royal Spring Garden	Chaohu	Residential	12,722	197
UpperHills	Shenzhen	Complex	5,121	651
Tanglang City*	Shenzhen	Complex	4,297	273
Total			**571,437**	**16,453**

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 approximately 795,000 square meters, and a completed area of approximately 722,000 square meters.

New Construction Projects in 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
Chaohu South Phase 2	Chaohu	Residential	7,516	7,294
Total			**794,871**	**611,464**

Completed Projects in 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
Ma'anshan Shum Yip Huafu Phase 3.2	Ma'anshan	Residential	191,656	152,873
Total			**722,448**	**339,258**

Land Reserves

In 2018, by firmly adhering to the strategy of focusing on the Greater Bay Area and core first-tier and second-tier cities, the Group acquired four pieces of land through various ways in Shenzhen, Wuhan, Changsha and Chengdu with an aggregate capacity building area of approximately 633,000 square meters, which has further optimized its asset structure and helps to improve its sustainability in the future.

Breakthrough in Urban Redevelopment

During the year, the Group entered into relocation and compensation agreements with the original owners including subsidiaries of Shum Yip Group, the ultimate holding company of the Company, and obtained the qualification of development capacity in relation to Xinhongcheng redevelopment project. The redevelopment project of Xinhongcheng, located at Xiashijiacun, Jiangshicun, Gongming Subdistrict, Guangming New District, Shenzhen, 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 & 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 capacity building 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, 12,000 square meters is for commercial use and 9,000 square meters is for public facilities.

Proactive Development of Projects in Second-tier Cities

During the year, by seizing the favourable market opportunities, the Group successfully implemented the Wuhan Bio Valley Project (武漢生物谷項目). The 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 prime residential community.

The Group won the bids for the project in Haibin Bay, Chenghua District, Chengdu City and the project in Yanghu, Yuelu District, Changsha City in September 2018 at the initial offer prices of RMB330 million and RMB1.21 billion, respectively. The project in Haibin Bay, Chenghua District, Chengdu City covers a total area of approximately 25,000 square meters and a capacity building area of approximately 41,000 square meters, which is equivalent to a planned unit floor area price of approximately RMB8,006/square meters, and is planned to be developed into a residential community. The project in Yanghu, Yuelu District, Changsha City covers a total area of approximately 80,000 square meters and a capacity building area of approximately 185,000 square meters, which is equivalent to a planned unit floor area price of approximately RMB6,502/square meters, and is planned to be developed into a residential and commercial community.

Promotion of Land Cluster Development Coordination and Grasp of Potential Opportunity

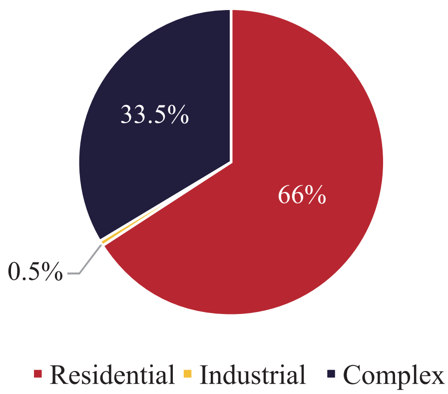
The planning schemes and urban redevelopment projects including Chegongmiao and Bagualing in Shenzhen have been expediated. Among them, Bagualing Shanglinyuan obtained approvals for the urban redevelopment plan and specialized plans prior to the launch of new “731” real estate control policies. It is expected to obtain the qualification as a developer for such project in the year of 2019.

In addition, Shum Yip Group, the ultimate holding company of the Company, made an investment to Shenzhen-Hong Kong Science and Technology Innovative Cooperation Zone Development Co., Ltd. (深港科技創新合作區發展有限公司) to hold 25% equity interests in the company, which provides a valuable opportunity to the Group to participate in the construction of the Greater Bay Area, especially the development and operation of Shenfang High-Tech Park in the Shenzhen-Hong Kong Science and Technology Innovation Special Cooperation Zone (深港科技創新特別合作區) (Hetao area).

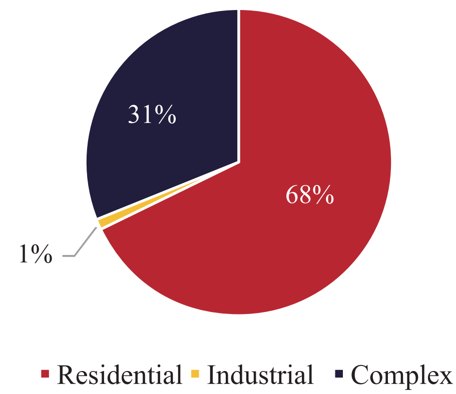
* The English translation is for identification purpose only.

Distribution of Land Reserves (As at 31 December 2018)

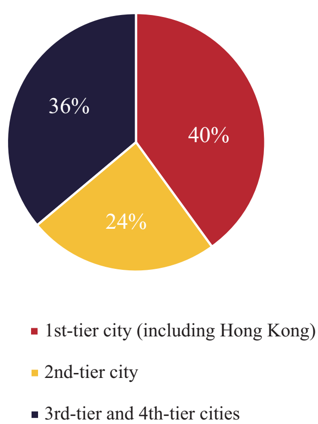
By type – Planned GFA[note 1] (sq.m.)



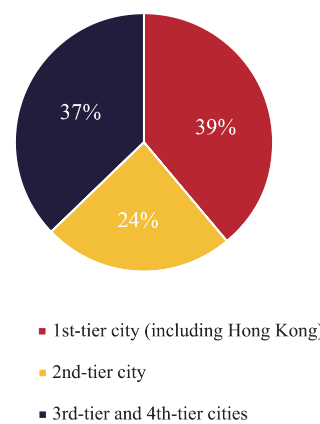
By type – Capacity Building Area[note 2] (sq.m.)



By City – Planned GFA[note 1] (sq.m.)



By City – Capacity Building Area[note 2] (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.

By the end of December 2018, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 6.28 million square meters (of which the Group was interested in 5.68 million square meters), and a capacity building area of 4.67 million square meters (of which the Group was interested in 4.20 million square meters), of which, the projects under construction had a total planned GFA of approximately 3.23 million square meters (of which the Group was interested in 2.93 million square meters) and a capacity building area of 2.48 million square meters (of which the Group was interested in 2.26 million square meters).

The Group proposed the strategic layout of focusing on the Greater Bay Area in 2017. Against such background, its assets structure was comprehensively optimized by acquiring a number of land projects located at Tuen Mun (Hong Kong), Shenzhen, Foshan and other cities in the Greater Bay Area through various ways, whilst disposing ineffective projects in the third-tier and fourth-tier cities successively. The capacity building area of land reserve in the first-tier and second-tier cities and in the Greater Bay Area accounted for 63% and 60% of its total capacity building area respectively.

In the future, the Group will continue to focus on the Greater Bay Area, and intensify its development in Shenzhen by proactively seeking for project resources and also opportunities to invest in quality projects in the first-tier and second-tier key cities.

Property Investment

As at 31 December 2018, the Group has investment properties of approximately 1.14 million square meters, 85.2% of which are located in Shenzhen. During the year, the Group recorded rental income of approximately HK$983.4 million, representing an increase of approximately 5.8% over the last year. The gross profit margin of property investment business was approximately 77.9%, representing a decrease of 0.3 percentage points over the last year. The Group recorded a revaluation gain in its investment property portfolio of HK$1,282.9 million for the year. Revenue and scale of the Group's investment properties are expected to increase significantly with the completion of UpperHills and Taifu Square projects and tenant solicitation.

Overall Commencement of Mixed-Ownership Reform on Asset – Light Operation Businesses

During the year, the Group commenced the mixed-ownership reform on the sectors under its asset-light operation business in an overall manner. Four asset-light operation and management companies were established in respect of each of the following asset-light businesses: commercial operation, property management, entrusted construction and the operation of wisdom park, with in place scheme of mixed-ownership reform comprised of the introduction of strategic investors and employee stock ownership. Supported by the State-owned Assets Supervision and Administration Commission (SASAC) of Shenzhen, the four operation and management companies were admitted to the first batch of mixed-ownership reform, symbolizing the overall commencement of mixed-ownership reform on operation businesses. The mixed-ownership reform will allow the Group to launch mechanism innovation for more vitality, thus laying a solid foundation at mechanism level for the further expansion of operation market.

Commercial Operation Business

On 18 January 2018, the commercial area of UpperHills ushered in its grand opening, with opening rate of 60% and significantly improved footfall seen by the end of the year. The Caitian Footbridge (彩田人行天橋) has come into services, which not only denotes the design concept of "stitching the city", but also provides a convenient and efficient public space for the citizen.

Tanglang City project has broken regional competition barrier and introduced a number of well-known major merchants, with an occupancy rate of 72%. It is expected to be opened in the year of 2019.

Shum Yip Dongling has successfully delivered the street-level commercial concept of "two streets making one downtown street" (兩街一市) by introducing many featured catering and time-honored brands with an occupancy rate of 75%. It is expected to be opened in the year of 2019.

Property Management Business

Our property management companies 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. The Group manages over 50 million square meters of properties which 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. During the year, the property management business contributed approximately HK$2,103.8 million to the revenue of the Group, representing an increase of 15.6% over the same period of last year.

Entrusted Construction Business

The entrusted construction business of the Group progressed effectively during the year. The Group was admitted to the preliminary list of entrusted construction suppliers for the redevelopment at city level and of Futian, Luohu, Bao’an, Pingshan and the demolition and resettlement of Bao’an. In addition, the Group secured various projects including the Phase II of the space corridor in Futian CBD, expansion of Xingzhi Senior Vocational School (行知職業技術學校) in Luohu, entrusted construction of public service facilities in Pingshan. It also collaborated with some state-owned enterprises in Futian in demolishing and resettling Xiangmi Ercun (香蜜二村) and Shuiwu Dayuan (水務大院). During the year, the Group recorded operating income from entrusted construction business (included under other operating segment) of approximately HK$74.4 million.

Hotel Operation Business

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 year, the four hotels in operation recorded operating income (included under other operating segment) of approximately HK$221.5 million, representing an increase of 22.2% 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$342.4 million, representing an increase of 5.2% over the last year.

Performance of Joint Ventures

During the year, Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) made a net profit contribution of HK$154.9 million to the Group. The principal activity of the company is to assist local government in primary land development and the local government arranged for transfer or return of land of approximately 509,000 square meters during the year.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of HK$503.3 million for the year, representing an increase of 354.2% 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$428.8 million to the Group, representing an increase of 43.7% 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$785.9 million to the Group, representing an increase of 49.5% over the last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$27.6 million to the Group, compared with a loss of HK$69.1 million for the last year.

Investment in Hengda Real Estate

As at 31 May 2017, the Group, through Shenzhen Shum Yip Shenheng Investment Co., Ltd. (深圳市深業深恒投資有限公司) ("Shum Yip Shenheng", formerly known as 馬鞍山市茂文科技工業園有限公司 (Maanshan Maowen Technology Park Co. Ltd.)), a wholly owned subsidiary of the Company, entered into an investment agreement (the "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 1.7626% equity interests in Hengda Real Estate.

According to the requirements under new accounting standards, the equity interests held by the Group in Hengda Real Estate was included as financial assets through profit or loss and accounted for at fair value, with changes in fair value recognised in profit or loss. As at 31 December 2018, non-cash loss arising from changes in fair value of the financial assets amounted to approximately HK$850 million.

Under the terms of the Investment Agreement, Kailong Real Estate and Hengda Real Estate have undertaken that the net profit of Hengda Real Estate for 2017, 2018 and 2019 shall not be less than RMB24.3 billion, RMB50.0 billion and RMB55.0 billion, respectively. Hengda Real Estate will distribute at least 68% of its net profit under the performance undertaking period to its shareholders in cash, till the entering into of a reorganization agreement (i.e. the listing of Hengda Real Estate in China as an A-share company through reorganization by China Evergrande Group). Hengda Real Estate has fulfilled its undertaking to record a net profit of not less than RMB24.3 billion in 2017, and paid dividends of approximately RMB28.4 billion in aggregate for 2017 to all shareholders. The Group received a dividend of approximately RMB0.5 billion for its 1.7626% equity interests in Hengda Real Estate acquired by way of capital contribution of RMB5.5 billion, which was accounted for in the second half of 2018.

Additionally, under the Investment Agreement, if the abovementioned proposed reorganization is not completed by 31 January 2020, Shum Yip Shenheng will have the right to demand Kailong Real Estate or Mr. Hui Ka Yan, the controlling shareholder of China Evergrande Group, to buy back the entire equity interest in Hengda Real Estate held by it at its original investment cost, or demand Kailong Real Estate to transfer 50% of the equity interest then held by Shum Yip Shenheng in Hengda Real Estate (excluding any additional equity interest acquired by Shum Yip Shenheng subsequent to the date of the Investment Agreement) to Shum Yip Shenheng at nil consideration as compensation.

Financing

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

As at 31 December 2018, the Group's total bank and other borrowings amounted to HK$25,260.8 million (31 December 2017: HK$22,903.2 million), of which HK$18,496.0 million were floating-rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK$19,362.3 million, representing approximately 76.6% of the total borrowings, and short-term loans were HK$5,898.5 million, representing approximately 23.4% of the total borrowings. Borrowings from Hong Kong and overseas amounted to HK$13,074.3 million, representing approximately 51.8% of the total borrowings, and the remaining were borrowings from mainland China, representing approximately 48.2% 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 4.8% per annum.

As at 31 December 2018, the Group's cash balance (including restricted cash) was HK$12,655.2 million (31 December 2017: HK$12,984.1 million), of which approximately 93.2% and 6.8% were denominated in Renminbi and other currencies (mainly in US$ and HK$) respectively.

As at 31 December 2018, the Group had net assets (excluding non-controlling interests) of HK$41,704.0 million (31 December 2017: HK$41,468.2 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 30.2% and the net gearing ratio with the liabilities including loan from shareholder of the parent and all other interest-bearing liabilities was 54.2%. The gross gearing ratio (being the ratio of total liabilities over total assets) was 61.5%.

Financial Position

HK$ million	**As at 31 December 2018**	As at 31 December 2017
Bank and other borrowings	**25,260.8**	22,903.2
– Long-term borrowings	**19,362.3**	14,765.6
– Short-term borrowings	**5,898.5**	8,137.6
Due to the ultimate holding company	**4,735.0**	5,107.3
Cash (including restricted cash)	**12,655.2**	12,984.1
Net gearing ratio with the liabilities including bank and other borrowings only	**30.2%**	23.9%
Net gearing ratio with the liabilities including all interest-bearing liabilities	**54.2%**	49.9%

Effect of Exchange Rate Fluctuation

The Group's assets are mainly denominated in Renminbi. 48.2% of the bank and other borrowings are denominated in Renminbi, while 51.8% are denominated in HK$. HK$ is adopted as the reporting currency in the Group's financial statements. 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$, the reporting currency. During the year, the changes in the asset and earnings denominated in Renminbi against HK$, the reporting currency was HK$2,581.4 million, which has been included in other comprehensive income. The Group will closely monitor and proactively avert foreign exchange risk through various ways.

Pledge of Assets and Contingent Liabilities

As at 31 December 2018, the Group had total loans of HK$373.3 million (31 December 2017: HK$402.8 million) that were pledged with assets (please refer to note 15 to the financial information for details).

As at 31 December 2018, the Group had provided guarantees to a maximum of HK$5,866.0 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 17 to the financial information for details).

Employees and Remuneration Policy

As at 31 December 2018, the Group employed 18,776 employees (2017: 18,867) 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 2018 (excluding remuneration of the Directors) amounted to approximately HK$1,627.0 million (2017: HK$1,615.8 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.

DIVIDEND

The Board recommends the payment of a final dividend of HK11.00 cents per share for the year ended 31 December 2018 (2017: a final dividend of HK11.00 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 Thursday, 15 August 2019 to shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019. Together with the interim dividend of HK7.00 cents per share which was paid on 19 November 2018, the total dividend for the year ended 31 December 2018 amounts to HK18.00 cents per share (2017: HK18.00 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 Monday, 15 July 2019.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Picasso Room, B1 Level, InterContinental Grand Stanford Hong Kong, 70 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Wednesday, 29 May 2019 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 Friday, 24 May 2019 to Wednesday, 29 May 2019, 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 Thursday, 23 May 2019.

To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 5 June 2019 to Thursday, 6 June 2019, 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 Tuesday, 4 June 2019.

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 2018.

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 2018 final results and the audited consolidated financial statements for the year ended 31 December 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 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, 28 March 2019

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.