深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

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

2019 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- The Group achieved a revenue of HK$14,919.5 million. The gross profit margin was 34.4%;
- Profit attributable to equity shareholders was HK$4,062.8 million, representing an increase of 19.0% over the last year; if excluding the net effect of the changes in fair value of investment properties, changes in revaluation value of fixed assets and changes in fair value of financial assets of the Group, profit attributable to equity shareholders was HK$3,061.5 million;
- Basic earnings per share were HK47.53 cents, representing an increase of 13.4% over the last year;
- Sales revenue booked was HK$10,531.6 million in property development business. The gross profit margin of property development and sales was 37.0%;
- Finance costs bore a rate of 4.7% per annum;
- Net gearing ratio (including all interest-bearing liabilities) was 40.7%, representing a decrease of 13.5 percentage points over the last year;
- 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 amounts 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 2019 together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	**2019**	2018 *(Note)*
		$'000	*$'000*
Revenue	*5*	**14,919,474**	16,642,765
Cost of sales		**(9,794,350)**	(10,671,784)
Gross profit		**5,125,124**	5,970,981
Other income and gains	*6*	**315,462**	877,769
Gain on disposal of subsidiaries		**–**	10,364
Increase/(decrease) in fair value of financial assets at fair value through profit or loss, net		**340,676**	(849,929)
Increase in fair value of investment properties		**434,258**	979,924
Increase in fair value upon transfer to investment properties		**958,779**	302,943
Selling and distribution expenses		**(352,393)**	(261,383)
Administrative expenses		**(1,035,193)**	(947,784)
Other operating expenses		**(586,751)**	(287,816)
Finance costs	*7*	**(561,210)**	(882,699)
Share of profits less losses of joint ventures and associates		**2,045,785**	1,890,638
Profit before taxation	*8*	**6,684,537**	6,803,008
Income tax expense	*9*	**(2,307,247)**	(3,104,271)
Profit for the year		**4,377,290**	3,698,737
Attributable to:			
Equity shareholders of the Company		**4,062,796**	3,415,223
Non-controlling interests		**314,494**	283,514
		4,377,290	3,698,737

	Note	**2019**	2018 *(Note)*
Earnings per share (HK cents)	*10*		
Basic		**47.53**	41.93
Diluted		**47.53**	41.87

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	2019	2018 (Note)
	$'000	*$'000*
Profit for the year	**4,377,290**	3,698,737
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	**61,221**	–
– Income tax effect	**(15,305)**	–
	45,916	–
– Surplus on revaluation of leasehold land and buildings held for own use		
– Changes in fair value	**485,070**	–
– Income tax effect	**(121,267)**	–
	363,803	–
	409,719	–
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of joint ventures and associates	**(185,026)**	(235,317)
– Cumulative exchange differences reclassified to profit or loss upon disposal of subsidiaries	**–**	6,830
– Exchange differences on translation of foreign operations	**(1,229,187)**	(2,581,404)
	(1,414,213)	(2,809,891)
Other comprehensive income for the year, net of tax	**(1,004,494)**	(2,809,891)
Total comprehensive income for the year	**3,372,796**	888,846
Attributable to:		
Equity shareholders of the Company	**3,119,739**	775,332
Non-controlling interests	**253,057**	113,514
Total comprehensive income for the year	**3,372,796**	888,846

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	**31 December 2019** **$'000**	31 December 2018 *(Note)* *$'000*
Non-current assets			
Property, plant and equipment		**6,103,243**	4,666,465
Prepaid land lease payments		**32,580**	34,455
Goodwill		**358,892**	366,929
Investment properties		**34,241,821**	29,143,111
Interests in associates		**5,319,511**	4,951,156
Interests in joint ventures		**6,811,843**	6,215,166
Other financial assets	*13*	**9,036,933**	9,077,347
Deferred tax assets		**1,802,630**	2,072,491
Total non-current assets		**63,707,453**	56,527,120
Current assets			
Biological assets		**2,205**	1,537
Completed properties held for sale		**21,457,104**	6,265,723
Properties under development		**22,277,161**	38,097,509
Inventories		**195,177**	131,885
Trade receivables	*12*	**593,612**	578,468
Prepayments, deposits and other receivables		**4,636,375**	3,759,648
Other financial assets	*13*	**31,095**	3,068
Restricted cash		**2,719,521**	2,822,965
Cash and cash equivalents		**9,653,239**	9,832,226
Total current assets		**61,565,489**	61,493,029

	Note	31 December 2019	31 December 2018 (Note)
		$'000	*$'000*
Current liabilities			
Interest-bearing bank and other borrowings		**8,406,211**	5,898,502
Lease liabilities		**103,476**	–
Trade payables	*15*	**2,625,609**	1,956,668
Other payables and accruals		**13,074,208**	12,162,041
Contract liabilities		**18,100,667**	11,232,109
Due to the immediate holding company		**562,926**	1,233,548
Due to the ultimate holding company		**1,936,473**	4,734,953
Tax payable		**6,247,561**	7,251,663
Total current liabilities		**51,057,131**	44,469,484
Net current assets		**10,508,358**	17,023,545
Total assets less current liabilities		**74,215,811**	73,550,665
Non-current liabilities			
Interest-bearing bank and other borrowings		**15,891,707**	19,362,263
Lease liabilities		**401,541**	–
Deferred income		**28,193**	22,881
Due to the immediate holding company		**700,920**	–
Deferred tax liabilities		**8,821,155**	8,721,825
Total non-current liabilities		**25,843,516**	28,106,969
NET ASSETS		**48,372,295**	45,443,696
CAPITAL AND RESERVES			
Share capital		**21,910,268**	20,688,259
Reserves		**22,564,388**	21,015,716
Total equity attributable to equity shareholders of the Company		**44,474,656**	41,703,975
Non-controlling interests		**3,897,639**	3,739,721
TOTAL EQUITY		**48,372,295**	45,443,696

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the 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 2019 and 2018 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 2018 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 2019 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 financial information for the year ended 31 December 2019 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 financial information is the historical cost basis except that the following assets are stated at their fair value:

– 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 new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, *Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged, except for the leases where the Group is an intermediate lessor.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

(i) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.45%.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *$'000*	Capitalisation of operating lease contracts *$'000*	Carrying amount at 1 January 2019 *$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	4,666,465	48,177	4,714,642
Total non-current assets	56,527,120	48,177	56,575,297
Lease liabilities (current)	–	16,480	16,480
Total current liabilities	44,469,484	16,480	44,485,964
Net current assets	17,023,545	(16,480)	17,007,065
Total assets less current liabilities	73,550,665	31,697	73,582,362
Lease liabilities (non-current)	–	31,697	31,697
Total non-current liabilities	28,106,969	31,697	28,138,666
Net assets	45,443,696	–	45,443,696

(ii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial information as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iii) Lessor accounting

In addition to leasing out the investment property referred to in paragraph (ii) above, the Group leases out a number of items of building as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17, except for the leases where the Group is an intermediate lessor.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

For a sublease classified as a finance lease, the Group derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and recognises the finance lease receivables in the sublease when the Group enters into the sublease. Any difference between the right-of-use asset and the finance lease receivables in the sublease is recognised in profit or loss. During the term of the sublease, the Group recognises interest income as it accrues on the outstanding balance of finance lease receivables using the effective interest rate method and interest expense on the lease liability relating to the head lease.

For a sublease classified as an operating lease, the Group retains the lease liability and the right-of-use asset relating to the head lease in its statement of financial position unless the right-of-use asset meets the definition of investment property in which case the right-of-use asset is accounted for as an investment property and measured at fair value.

During the term of the sublease, the Group recognises lease income from the sublease and interest expense on the lease liability relating to the head lease.

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, other financial assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

2019	**Property development** *$'000*	**Property investment** *$'000*	**Property management** *$'000*	**Manufacture** *$'000*	**Others** *$'000*	**Total** *$'000*
Segment revenue:						
Sales to customers	10,531,572	1,070,991	2,099,290	333,867	883,754	14,919,474
Intersegment sales *(Note b)*	–	11,816	160,919	–	144,070	316,805
	10,531,572	1,082,807	2,260,209	333,867	1,027,824	15,236,279
Reconciliation						
Elimination of intersegment sales						(316,805)
Revenue						14,919,474
Segment results before increase in fair value of investment properties	4,684,229	688,102	225,340	22,729	(107,379)	5,513,021
Increase in fair value of investment properties	–	434,258	–	–	–	434,258
Increase in fair value upon transfer to investment properties	–	958,779	–	–	–	958,779
Segment results after increase in fair value of investment properties	4,684,229	2,081,139	225,340	22,729	(107,379)	6,906,058
Reconciliation						
Elimination of intersegment results						(94,022)
Other income and gains						315,462
Fair value gain on financial assets measured at fair value through profit or loss, net						340,676
Corporate and other unallocated expenses						(222,427)
Finance costs						(561,210)
Profit before taxation						6,684,537
Segment assets	56,051,271	37,228,889	679,786	141,929	4,942,869	99,044,744
Reconciliation						
Corporate and other unallocated assets						26,228,198
Total assets						125,272,942
Segment liabilities	26,047,724	5,312,184	1,072,814	85,148	1,185,403	33,703,273
Reconciliation						
Corporate and other unallocated liabilities						43,197,374
Total liabilities						76,900,647
Other segment information:						
Depreciation	97,141	35,827	35,480	4,763	98,276	271,487
Amortisation of prepaid land lease payments	–	–	–	–	1,141	1,141
Interests in associates	2,470,510	637,737	309	15,133	2,195,822	5,319,511
Interests in joint ventures	6,446,120	136,913	17,750	–	211,060	6,811,843
Additions to non-current segment assets during the year *(Note c)*	204,314	1,013,851	76,637	4,103	1,294,065	2,592,970

2018 *(Note a)*	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 *(Note b)*	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 gain 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 taxation						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 *(Note c)*	54,438	315,326	18,671	2,791	218,082	609,308

Note:

a The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

b 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.

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

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 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:

	2019	2018
	$'000	*$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sale of completed properties	**10,531,572**	12,062,584
Management fee income	**2,099,290**	2,103,756
Sale of commercial and industrial goods	**333,867**	342,368
Others	**883,754**	1,150,682
	13,848,483	15,659,390
Revenue from other sources		
Gross rental income from investment properties		
– Lease payments that are fixed or depend on an index or a rate	**1,035,235**	981,191
– Variable lease payments that do not depend on an index or a rate	**35,756**	2,184
	14,919,474	16,642,765

The Group's customer base is diversified. For the year ended 31 December 2019, sales to the Group's largest customer amounted to approximately 11.48% of the Group's revenue. For the year ended 31 December 2018, 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 2019, the aggregated amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied under the Group's existing contracts is $25,939,073,000 (2018: $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 (2018: 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 and service contracts for property management 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 these contracts which had an original expected duration of one year or less.

6 OTHER INCOME AND GAINS

	2019	2018
	$'000	*$'000*
Interest income	**217,983**	257,684
Dividend income *(note a)*	**1,825**	594,840
Government grant	**20,703**	6,834
Others *(note b)*	**74,951**	18,411
	315,462	877,769

Note a: Pursuant to the investment agreements disclosed in note 13, the Group received a dividend in respect of year ended 31 December 2017 of $593,030,000 from Hengda Real Estate Group Company Limited ("Hengda Real Estate") in 2018. The dividend in respect of year ended 31 December 2018 of $877,646,000 should be received from Hengda Real Estate in January 2020.

Note b: During the year ended 31 December 2019, the Group entered into sublease arrangements with independent third parties whereby the Group is an intermediate lessor. These subleases are classified as finance leases and accounted for in accordance with the accounting policy set out in note 3 in which the Group derecognised the right-of-use assets relating to the head leases and recognised finance lease receivables relating to the subleases under "other financial assets" (see note 13). The Group also recognised an income of $40,245,000, being the difference between the right-of-use assets and the finance lease receivables, when entering into such arrangements.

7 FINANCE COSTS

	2019	2018
		(Note)
	$'000	*$'000*
Interest on:		
Bank loans	**999,744**	1,094,531
Other borrowings	**98,505**	219,765
Lease liabilities	**25,190**	–
Loans from the ultimate holding company	**117,054**	180,822
Loans from the immediate holding company	**33,213**	36,182
Loans from fellow subsidiaries	**130,556**	128,559
Loans from a joint venture	**24,338**	55,973
Loans from non-controlling shareholders	**7,642**	4,662
Total interest expense on financial liabilities not at fair value through profit or loss	**1,436,242**	1,720,494
Less: Interest expense capitalised into properties under development	**(875,032)**	(837,795)
	561,210	882,699

* The borrowing costs have been capitalised at a rate of 3.36% – 4.96% per annum (2018: 3.02% – 4.76%).

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

8 PROFIT BEFORE TAXATION

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

(a) Cost of sales

	2019	2018
	$'000	*$'000*
Cost of properties and inventories sold	**6,632,462**	7,217,800
Cost of services provided	**3,161,888**	3,453,984
	9,794,350	10,671,784

(b) Staff costs

	2019	2018
	$'000	*$'000*
Wages and salaries	**1,756,027**	1,496,795
Equity-settled share option expense	**26,836**	42,130
Retirement scheme contributions	**156,235**	149,358
	1,939,098	1,688,283

(c) Other items

	2019	2018
	$'000	*$'000*
Amortisation of prepaid land lease payments	**1,141**	1,222
Depreciation charge		
– owned property, plant and equipment *(Note)*	**202,260**	196,571
– right-of-use assets *(Note)*	**33,259**	–
	235,519	196,571
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 *(Note)*	**–**	24,727
Variable lease payment not included in the measurement of lease liabilities	**2,085**	706
Impairment losses/(reversal of impairment losses)		
– trade receivables	**16,625**	51,593
– prepayments, deposits and other receivables	**27,265**	(31,405)
– other financial assets	**(14,942)**	(17,303)
Net foreign exchange loss	**19,325**	74,451
Rental income on investment properties less direct operating expenses of $339,128,000 (2018: $217,195,000)	**(731,863)**	(766,180)
Loss on disposal of property, plant and equipment	**732**	3,414
Auditor's remuneration		
– audit services	**5,830**	5,500

Note The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

9 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 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.

	2019	2018
	$'000	*$'000*
Current tax:		
Mainland China CIT	**960,133**	1,440,816
Withholding tax on dividend	**99,207**	242,723
LAT in mainland China	**862,442**	2,154,594
Deferred tax		
Mainland China CIT	**501,143**	(401,756)
Withholding tax on dividend	**5,081**	(67,545)
LAT in mainland China	**(120,759)**	(264,561)
Total tax charge for the year	**2,307,247**	3,104,271

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 $4,062,796,000 (2018: $3,415,223,000) and the weighted average of 8,548,473,879 ordinary shares (2018: 8,144,123,420) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	Number of shares	
	2019	2018
Issued ordinary shares at 1 January	**8,413,711,807**	8,058,124,983
Effect of shares issued in respect of scrip dividends	**109,352,814**	84,830,904
Effect of share options exercised	**25,409,258**	1,167,533
Weighted average number of ordinary shares at 31 December	**8,548,473,879**	8,144,123,420

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $4,062,796,000 (2018: $3,415,223,000) and the weighted average of 8,548,473,879 ordinary shares (2018: 8,156,474,013).

For the year ended 31 December 2019, the effect of conversion of share option scheme was anti-dilutive and the diluted earnings per share for the year is therefore equal to the basic earnings per share. For the year ended 31 December 2018, the diluted earnings per share was calculated after taking into account the dilutive effect of deemed exercise of share options of 12,350,593.

11 DIVIDENDS

	2019	2018
	$'000	*$'000*
Dividends recognised as distribution during the year:		
Final dividend declared for 2018 – HK11.00 cents per share (2018: declared for 2017 – HK11.00 cents per share) (i)/(ii)		
Scrip shares	**675,777**	549,527
Cash	**252,630**	336,922
	928,407	886,449
Interim – HK7.00 cents (2018: HK7.00 cents) per ordinary share (i)/(iii)		
Scrip shares	**478,407**	390,163
Cash	**129,054**	186,060
	607,461	576,223
Dividends proposed after the end of the reporting period		
Final dividend of HK11.00 cents (2018: final dividend of HK11.00 cents) per ordinary share (i)/(iv)	**971,678**	928,407

(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 2018 amounted to $928,407,000, of which $252,630,000 were paid in cash and the remaining balance of $675,777,000 were settled in the form of 237,949,329 scrip shares on 15 August 2019.

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.

(iii) The Company declared an interim dividend of HK7.00 cents (2018: HK7.00 cents) per share in respect of year ended 31 December 2019 amounted to $607,461,000 (2018: $576,223,000), of which $129,054,000 (2018: $186,060,000) were paid in cash and the remaining balance of $478,407,000 (2018: $390,163,000) were settled in the form of 155,427,734 (2018: 168,464,032) scrip shares on 18 November 2019.

(iv) On 30 March 2020, the board of directors recommends a final dividend of 11.00 cents per share for the year ended 31 December 2019 (2018: final dividends of HK11.00 cents 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 reporting period.

The amount of the final dividend for 2019 was calculated on the basis of 8,833,437,048 shares in issue as at 30 March 2020.

12 TRADE RECEIVABLES

	31 December 2019	31 December 2018
	$'000	*$'000*
Trade receivables	**725,876**	697,064
Less: loss allowance account	**(132,264)**	(118,596)
	593,612	578,468

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 2019	31 December 2018
	$'000	*$'000*
Within one year	**438,893**	430,387
One to two years	**122,226**	140,548
Two to three years	**32,493**	7,533
	593,612	578,468

13 OTHER FINANCIAL ASSETS

	31 December 2019	31 December 2018
	$'000	*$'000*
Current:		
Financial assets measured at fair value through profit or loss ("FVPL")		
Listed equity investments in Hong Kong	**2,367**	3,068
Financial assets measured at amortised cost		
– Finance lease receivables due within one year	**29,296**	–
Less: Loss allowance	**(568)**	–
	28,728	–
	31,095	3,068

	31 December 2019 $'000	31 December 2018 $'000
Non-current:		
Financial assets measured at FVPL		
– Listed equity investments in mainland China	**31,801**	33,437
– Unlisted equity investments in mainland China *(note (i))*	**6,191,000**	6,261,172
– Derivative financial instrument *(note (i))*	**597,221**	335,542
	6,820,022	6,630,151
Equity securities designated at FVOCI (non-recycling)		
– Unlisted equity investments in mainland China	**3,748**	3,832
Financial assets measured at amortised cost		
– Finance lease receivables	**144,210**	–
– Other long term assets *(note (ii))*	**2,157,680**	2,549,654
Less: Loss allowance	**(88,727)**	(106,290)
	2,213,163	2,443,364
	9,036,933	9,077,347

Notes:

(i) The balance mainly represented the Group's equity investments and derivative financial instruments arising from the agreements with Hengda Real Estate and its controlling parties ("Hengda Investments") of $6,788,221,000 (2018: $6,596,714,000), 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 ("Listing Deadline") 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 ("the Minimum Dividend Payment Mechanism").

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.

On 13 January 2020, Kailong Real Estate, Hengda Real Estate and Mr. Hui entered into a supplemental investment agreement pursuant to which the parties thereto have agreed to amend certain terms of the Investment Agreements as follows:

(i) Original Listing Deadline has been extended from 31 January 2020 to 31 January 2021;

(ii) Kailong Real Estate and Hengda Real Estate have further undertaken to the Group that the amount of net profit of Hengda Real Estate for financial year 2020 will not be less than RMB60 billion; and

(iii) the same Minimum Dividend Payment Mechanism provided for in the Investment Agreements in respect of the financial years of 2017, 2018 and 2019 will also apply to the financial year of 2020.

During the year ended 31 December 2019, there was an increase in fair value in respect of Hengda Investments of $342,297,000 (2018: $845,962,000), which was recognised in the consolidated statement of profit or loss.

(ii) As at 31 December 2019, other long term assets mainly represented non-current receivables from a government authority of $1,007,088,000 (2018: $1,415,494,000), loans to a joint venture of $1,051,665,000 (2018: $1,013,478,000) and associates of $12,994,000 (2018: $14,392,000).

14 PLEDGE OF ASSETS

Bank loans amounting to $383,208,000 (2018: $373,343,000) were secured by certain of the Group's assets as below:

(i) land and buildings in mainland China with a net carrying amount of approximately $605,816,000 (2018: $646,862,000);

(ii) properties under development with a net carrying amount of approximately $1,086,976,000 (2018: $1,111,319,000); and

(iii) investment properties with a net carrying amount of approximately $498,181,000 (2018: $497,515,000).

In addition, Shum Yip Group, the ultimate holding company, has guaranteed certain of the Group's bank loans of $2,790,750,000 as at 31 December 2019 (2018: $2,853,250,000)).

15 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:

	2019	2018
	$'000	*$'000*
Within one year	**2,026,082**	1,206,283
One to two years	**124,859**	327,110
Two to three years	**106,228**	188,902
Over three years	**368,440**	234,373
	2,625,609	1,956,668

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

16 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2019 not provided for in the financial information were as follows:

	2019	2018
	$'000	*$'000*
Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:		
Contracted, but not provided for	**4,600,678**	7,343,032

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 2019, the Group had an outstanding capital commitment to Shum King Limited of $1,971,500,000 (2018: $2,007,500,000).

17 CONTINGENT LIABILITIES

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

As at 31 December 2019, the Group has given guarantees to a maximum extent of approximately $5,144,838,000 (2018: $5,866,018,000) 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 obtain 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 related parties of the Group

As at 31 December 2019, the Group has given guarantees amounting of RMB1,344,292,000 (2018: RMB129,948,000) in respect of bank loans and other borrowings to Pik Sum and Taizhou Shum Yip, both of which are joint ventures of the Group.

18 RELATED PARTY TRANSACTIONS

In addition to the financial guarantee received from the ultimate holding company disclosed in note 14, the financial guarantees provided to joint ventures disclosed in note 17(b) and the capital commitments provided to a joint venture disclosed in note 16, the Group had the following related party transactions:

(a) Financing arrangements

(i) The Group entered into certain financing arrangements with its related parties. The interest expenses arising from these financing arrangements for the year are disclosed in note 7. The amounts due to these related parties at the end of the reporting period are set out below.

	2019	2018
	$'000	*$'000*
Due to the immediate holding company	**1,263,846**	1,233,548
Due to the ultimate holding company	**1,936,473**	4,734,953
Loans from fellow subsidiaries	**4,049,884**	3,132,996
Loans from associates	**45,922**	46,950
Loans from joint ventures	**342,239**	1,167,231

These financing arrangements are unsecured, interest-free and have no fixed terms of repayment, except for the balances of $6,194,516,000 (2018: $8,954,388,000) which are interest-bearing, unsecured and have fixed terms of repayment ranging from one to three year.

(ii) The Group also provides loans to its related parties. At 31 December 2019, the Group's loans to joint ventures and associates were $3,032,524,000 (2018: $3,960,779,000) and $14,076,000 (2018: $15,811,000) respectively. The related interest income from the joint ventures and associates for the year ended 31 December 2019 were $161,895,000 (2018: $164,480,000) and $494,000 (2018: $368,000). The balances at 31 December 2019 include $2,860,786,000 (2018: $3,677,164,000) which are interest-bearing, unsecured and have fixed terms of repayment ranging from one to four year. The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

(b) Leasing arrangements

(i) The Group entered into leases in respect of certain leasehold properties from its related parties, with lease terms ranging from 1 years to 5 years. During the year ended 31 December 2019, the amounts of rent payable by the Group under these leases to its immediate holding company, fellow subsidiaries and associates were $4,972,000 (2018: $10,714,000), $3,460,000 (2018: $490,000) and $29,475,000 (2018: Nil) respectively. At 1 January 2019, the Group has initially applied HKFRS 16 using the modified retrospective approach and recognised right-of-use asset and lease liabilities relating to these lease arrangements.

(ii) The Group also entered into a lease arrangement with its ultimate holding company as a lessor. For the year ended 31 December 2019, the rental income in respect of the lease arrangement was $13,038,000 (2018: $12,370,000).

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

(c) Other related party transactions

(i) The Group entered into arrangement with its ultimate holding company in which the Group provides management services on its behalf in respect of certain agricultural lands and property development projects. For the year ended 31 December 2019, the management fee income in respect of these management services was $1,985,000 (2018: $2,068,000).

(ii) During the year ended 31 December 2019, the Group sold products to its joint ventures of $24,822,000 (2018: $228,074,000).

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

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	2019	2018
	$'000	*$'000*
Short-term employee benefits	**16,094**	16,343
Post-employment benefits	**2,619**	2,495
Equity settled share option expense	**6,586**	9,373
	25,299	28,211

19 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 2019 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 2019, Chinese economy has experienced greater fluctuations and rising downward pressure amid Sino-US trade friction, the shift in growth momentum of economy and the gradually resolving financial risks. In face of the complicated economy climate, the macro policies were oriented to steady economic growth, enabling the overall economy to maintain stable. With the adjustments in control policies and the eased liquidity, there were signs of recovery in the real estate market in the first-tier and second-tier cities, reflected by land market picking up. There were signs of recovery in the real estate market in Shenzhen, though the extent varies among different market segments. In Shenzhen, the full-year trading area in residential market increased by 26.5% over last year with price maintaining stable; transaction remained sluggish in the apartment market affected by the sales restriction policy; while a higher vacancy rate was seen in the office building market with lower rents due to downward economic pressure.

Despite of the mixed and ever changing business environment, the Group has been able to maintain a steady performance through various efforts including overcoming difficulties resulted from commercial property market downturn, increased uncertainties on block trades and movements on investment income, actively meeting the changes in economic environment, seizing opportunities to promote the sales of key projects, accelerating completion of projects in progress, expanding quality land resources as well as strengthening finance and financial supports.

2019 Annual Results

During the year, the Group achieved a turnover of HK$14,919.5 million, representing a decrease of 10.4% over the last year. Gross profit was HK$5,125.1 million, representing a decrease of 14.2% over the last year. Profit attributable to equity shareholders of the Company was HK$4,062.8 million, representing an increase of 19.0% over the last year.If excluding the net effect of changes in fair value of investment properties attributable to the Group, changes in revaluation value of fixed assets and changes in fair value of financial assets, profit attributable to equity shareholders of the Company was HK$3,061.5 million, representing a decrease of 2.8% over the last year. Basic earnings per share were HK47.53 cents, representing an increase of 13.4% over the last year. The Board recommends the payment of a final dividend of HK11.00 cents per share for 2019 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 amounts to HK18.00 cents per share.

Steady Sales Growth Achieved with Quality Residential Projects under Hot Sales

During the year, the Group realized contracted sales of approximately RMB16.8 billion, representing an increase of 2.1% over the last year. Its major projects include Shum Yip Zhongcheng, Terra Licheng, Qianhai Parkview Bay, Shum Yip Dongling, Taifu Square and Ma'anshan Shum Yip Huafu as well as Gaobangshan No.1 in Huizhou. Approximately 80% of the Group's contracted sales were contributed by Shenzhen projects.

There were signs of recovery in the real estate market in Shenzhen, though the extent varies among different market segments and properties. More precisely, the transactions in residential market were relatively active, trading in the apartment market recorded less favorable performance while the trading in office building market was weak; and projects located at a premium location with superior quality and reasonable pricing were under hot sales, but projects with average quality and lower value-for-money were unpopular in the market. The Group's Shum Yip Zhongcheng and Qianhai Parkview Bay had received overwhelming popularity from the market with their core location and outstanding quality. Shum Yip Zhongcheng was completely sold out on the date launched, and 90% of the residential units launched in Qianhai Parkview Bay were sold. Though the office building market was experiencing downturn and institutional clients were facing financial strain, Terra Licheng realized approximately RMB3.14 billion of contracted sales in block trades.

Expansion of Quality Land Resources

During the year, the Group continued to focus on the Greater Bay Area and intensify development in Shenzhen, and achieved great results in acquisition of land resources. The Group won the bids for the projects in Shenzhen, Dongguan and Nanjing with a gross floor area of approximately 220,000 square meters at a total consideration of RMB3.6 billion.

Of those projects, the Shenzhen project is a new type industrial land acquired through expansion of its existing self-owned project with a capacity building area of approximately 52,000 square meters. It is located at Banxuegang area, Longgang District, Shenzhen, which is the intersection of Shenzhen's urbanization towards the north and the east, being a prime area with good transportation planning and strong industrial atmosphere. The Dongguan project is a commercial and residential land plot acquired through public bidding with a capacity building area of approximately 125,000 square meters. It is located at Songshan Lake, Dongguan, an area adjacent to Shenzhen with strong momentum of economic development, and is also in close proximity to the R&D and production base of Huawei, which has huge appreciation potential. The Nanjing project is a residential plot acquired through public bidding with a capacity building area of approximately 44,000 square meters. It is located at the prime zone of Hexi, Nanjing, and is adjacent to Yuzui International Commercial District, the next city center of Nanjing, which has a high strategic position and huge market potential.

In addition, the urban redevelopment projects including Chegongmiao and Bagualing Shanglinyuan in Shenzhen have been expedited.

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 and the returns of the stock funds, and reduced borrowing costs to a lower level of 4.7% by means of debt replacement and optimization of loan portfolio. As of 31 December 2019, net gearing ratio (including all interest-bearing liabilities) was maintained at a reasonable level of 40.7%. Meanwhile, the Group proactively facilitated financing innovation by completing the registration of issuing asset-backed notes with Times Technology Building as the underlying assets, so as to increase financial resources to its reserves.

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

Outlook

Shoulder the Responsibility as a State-owned Enterprise in Response to the Outbreak of Epidemic

At the very beginning of 2020, the novel coronavirus epidemic suddenly outbroke in full fury. In face of the situation, governments at all levels provide full supports and all the Chinese people were united to fight against the epidemic under quick decision-making and deployment by the central government. With an influx of population and huge number of floating population, Shenzhen was facing extremely severe situation in prevention and control of the outbreak. In light of that, a strict yet effective three-tier professional and comprehensive prevention and control system as well as a livelihood guarantee mechanism were put in place in Shenzhen, based on which, a variety of measures such as data monitoring, all-round inspection, prevention and control through quarantining, medical resources mobilization, delay of timing of work resumption and school opening, closed-off management for residential areas, guarantee of material supply, formulation of guidance and publicity of relevant knowledge were taken to effectively contain the developments.

In face of the epidemic, the Group bravely shouldered its responsibility as a state-owned enterprise by taking active actions to weather through this difficult period. The employees from Shum Yip Property and Shum Yip Intelligent Park Operation Company of the Group persisted to working at the frontline. In strict compliance with the prevention and control policies, the Group initiated the "closed-off management – thorough inspection – three-dimension protection – intimate service" model to manage all-round disinfection, body temperature measurement, strict control over the personnel and vehicles in and out, and complete information report, employment prevention and protection and publicity of epidemic prevention. In response to the Shenzhen Municipal Government's requests to aid enterprise in this difficult time to combat with the epidemic, the Group have initiatively waived 2-months' rent for non-state-owned enterprises, scientific research institutions, medical institutions and individual industrial and commercial households to work with our customers together to overcome difficulties.

Impact of the Epidemic on Economy and Industry

The sudden drastic outbreak of epidemic has made the Chinese economy even worse when it is facing the overlapping influences caused by structural and cyclical issues. Consequently, quite a lot of enterprises suffered a severe blow amid the severe economic situation. The real estate industry was hit even to a larger extent. Except for the direct influences that our sales centers were closed and the commencement of construction was delayed during the period of epidemic prevention and control, there will still be far-reaching influences on the real estate industry brought about by economic downturn, enterprises in operational troubles and their resulting impacts on family income and market sentiment, etc.. Moreover, it has posed challenges to the operation and capital security of real estate enterprises. On the premise that epidemic prevention and control efforts are carried out properly, the government will strengthen the control of macroeconomic policies by overall employment of fiscal taxation policy and financial policy to boost market liquidity. The government will also allocate more resources, optimize investment structures and provide more supports for the real economy and enterprises to promote smooth running of the economy. Furthermore, positive regulation potential of real estate policies will be released. Based on the keynote that differentiated regulatory policies should be adopted for different cities, it is believed that local governments will launch supporting policies to varying extent to ease capital risk faced by enterprises and help them to tide over the difficulties, thereby steering the development of real estate industry in an orderly and healthy manner.

The Epidemic Will Eventually be Defeated

Despite that the epidemic has hit the economy and the industry, it is firmly believed that the epidemic will eventually be defeated under effective and efficient prevention and control through united efforts of Chinese people all over the country, that the economic development will go back on track and that Shenzhen will again embrace the great historic development opportunity of "Taking the Two Areas as Driver (雙區驅動)" (i.e. the Guangdong-Hong Kong-Macao Greater Bay Area and the Pilot Demonstration Zone of Socialism with Chinese Characteristics). At the end of 2019, a program to build a pilot demonstration zone in Shenzhen was officially launched. According to the program, the government of Shenzhen will carry out a series of major reforms, including the construction of Qianhai, a comprehensive national scientific center and the Shenzhen-Hong Kong science and technology innovative cooperation zone, implement new innovation-driven development strategy, deploy the establishment of major innovation platforms and create an industrial system with strong competitiveness. At the same time, industrial lands with a site area of 30 square kilometers were launched in 36 areas in the whole city of Shenzhen to attract large-scale investments from all around the world with 128 projects being introduced to Shenzhen at a contracted amount of RMB560.0 billion. Industrial leading force will foster urban renewal as well as innovation and development in Shenzhen.

In the long run, the real estate industry will return to its basics gradually, while persistent inflow of population, industry cluster and economic vitality will become the critical factors in support for stable and health development of the real estate market. As the innovation hub in China, Shenzhen sees its startup density ranking first in China and its economy full of vitality with the most market-oriented business environment, established infrastructure and service-oriented government. Against the backdrop of "Taking the Two Areas as Driver", the aggregation effect of Shenzhen or even the Guangdong-Hong Kong-Macao Greater Bay Area on industries, capital and talents will become increasingly prominent as the government creates innovative ecological chain and completes the construction of educational, medical and cultural facilities. Thus, demand for city space such as industrial park, office buildings, living space and commercial space in Shenzhen will be released. In view of the developing housing supply and guarantee system with multi-source of supply, multi-channel support, with an equal focus on renting and purchasing in Shenzhen, we are fully confident about the sustainable, steady and sound development of the real estate markets in Shenzhen.

Overcome Difficulties to Make a Breakthrough and Maintain Stable Business Development

The year 2020 is a crucial year for us to inherit the past and usher in the future, but the sudden outbreak of epidemic has posed severe challenges to our smooth-going operation. The measures such as closing sales centers, waiving rent and enhancing prevention and control in our properties have cast direct influence on the Group's operational efficiency. Regarding the fight with epidemic as an order and taking prevention and control of epidemic as responsibility, the Group has made initiative deployment and active response at the special period, which fully embodies our role as a state-owned enterprise and our braveness to take active measures and combat difficulties. Influenced by the epidemic, sale of certain projects will be delayed until 2021. The adjusted saleable value for 2020 is about the same as that for 2019. Due to waiver of rental payment, rental income will be less than planned, and the property management costs will climb up, while return rate will be low and schedule of certain projects will be delayed since people still face severe prevention and control situation upon work resumption. Capital security of the Group has passed interior pressure test with risk controllable since the Group remains capital sufficient with cash balance (including restricted cash) standing at HK$12.4 billion by the end of 2019 and it has made prior capital arrangement at the beginning of the year.

While fighting with epidemic, the Group will work together to overcome difficulties and strive to maintain the stability of operating indicators such as sales and rental income and the overall performance. The Group has resumed work and production in a safe and orderly manner and adopted various measures to offset the impact of epidemic: developing online marketing channel through the official launch of the online sales platform "Shum Yip Haofang (深業好房)"; promoting tenants to resume work and production in an orderly manner, capitalizing on its image to "shoulder the responsibility as a state-owned enterprise to weather through this difficult period" and its brand effect to increase target customers, strengthening the promotion of commercial and office properties, striving to offset the impact of waiving rent on overall rental income through commercial rental growth; actively communicating with the government to receive subsidies and strengthening communication with tenants to increase customer adhesion and take advantage of its brand; facilitating business expansion of its properties and parks operations; as well as seeking for opportunity to counter-cyclically expand resources relying on its capital advantage. After five years' effort in strategic priorities and transformation, the Group, with its high-quality assets and sufficient financial resources, is well able to respond to the impact of the epidemic and to get through difficulties with customers, which makes active preparation for resource exploration and sustainable development of the Group in the future.

Focus on the Greater Bay Area and Intensify Development in Shenzhen by Proactively Allocating Multi-channel Resources

Affected by the epidemic, the sluggish duration of real estate industry is expected to sustain for a period of time with the potential of good opportunity to obtain high-quality assets. In light of this, the Group will devote more resources to Shenzhen and the Guangdong-Hong Kong-Macao Greater Bay Area, while expanding resources and projects through multi-channels riding on its strategic focus and capital advantages. In terms of the ways to explore resource, the Group will identify various methods of resource exploration proper for its own development, including but not limited to: 1) deepening cooperation with the ultimate holding company of the Company to increase our prime land reserves in Shenzhen and the Greater Bay Area; 2) proactively capturing the opportunity of the ultimate holding company of the Company to participate in the development of Shenfang High-Tech Park in Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone and the Zhongshan Cuiheng Industrial Park (中山翠亨產業園) by capitalizing on sound park operation services to establish industry cluster advantages and expedite resource exploration; 3) relying on the Group's experience in urban renewal projects and seizing the favorable policy of "Taking the Two Areas as Driver" to actively identify opportunities for urban renewal projects in key cities constituting the Guangdong-Hong Kong-Macao Greater Bay Area; 4) focusing on mergers and acquisitions through innovative way of acquiring land to fully participate in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area; and 5) boosting close collaboration with government organizations to actively increase the stock of PPP projects of government property redevelopment.

Deepen Transformation to Map Out the Blueprint for the Coming Five Years

As the real estate industry gradually steps into the stock era, the high turnover model requires strong resource acquisition capability, sales ability and financial strength, while enhancing asset value through transformation and optimization to increase recurring income is an alternative sustainable model. The Group will adapt to the changing environment and seek to further deepen transformation to exert its industry cluster capability, promote industry leading capability and allocate more resources to operational assets for holding purpose. The Group will provide its industrial partners with tailor-made space and high-quality intelligent park operation service to achieve substantial increase in its recurring incomes including rental income and operating income to optimize income and profit-making structure. Meanwhile, the Group will increase the use of capital and financial instruments to improve assets turnover and returns.

Riding the historic opportunity of "Taking the Two Areas as Driver" in Shenzhen, the Group will actively fit into this national and regional development landscape to map out its blueprint during the period of "14th Five Years Plan" with heightened strategic position and high standard. Relying on the fresh strategic planning and innovative assessment and incentive mechanism, it is expected that the Group's urban service capability and industry cluster capability will be gradually enhanced, its resource acquisition capability and professional operating capability will be greatly strengthened, its growth in land reserves, contracted sales, recurring income and the scale of profitability will get more aggressive, and its sustainability and value-creating ability will lift to a new level in the coming five years.

No winter lasts forever, no spring skips its turn. Through unremitting efforts and by seizing the historic development opportunity, the Group is expected to accelerate the materialization of the upgrading of its strategic position from a "real estate developer" to an "operation service provider for urban construction", further achieve a sound, sustainable and steady development and create more satisfactory returns for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

In 2019, the external macro-environment was complicated and challenging. The Sino-US trade frictions deepened, the downward pressure on economy continuously increased and the growth of industries slowed down, all increased the uncertainties in the market. In face of the complicated economy climate, the macro policies were oriented to steady economic growth, enabling the overall economy to maintain stable. With the adjustments in control policies and the eased liquidity, there were signs of recovery in the real estate market in Shenzhen, though the extent varies among different market segments. Despite of the mixed and changing business environment, the Group endeavored to implement each operating task and maintained stable results.

During the year, the Group realized revenue of approximately HK$14,919.5 million, representing a decrease of 10.4% over the last year. Gross profit margin was 34.4%, representing a decrease of approximately 1.5 percentage points over the last year. Gross profit was HK$5,125.1 million, representing a decrease of 14.2% over the last year. Profit attributable to equity shareholders of the Company was HK$4,062.8 million, representing an increase of 19.0% over the last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group, changes in revaluation value of fixed assets and changes in fair value of financial assets, profit attributable to equity shareholders of the Company was HK$3,061.5 million, representing a decrease of 2.8% over the last year. Basic earnings per share were HK47.53 cents, representing an increase of 13.4% over the last year.

Property Development Business

Sales Revenue Booked

During the year, the Group recorded property sales booked of approximately 519,000 square meters (excluding interests attributable to the major associates of the Group), representing an increase of 30.1% over the last year, and achieved net revenue from property sales of approximately RMB9,261.0 million (equivalent to HK$10,531.6 million) (net of value-added tax), representing a decrease of 12.7% over the last year. Gross profit margin of property development and sales was 37.0%, representing a decrease of 3.2 percentage points over the last year. During the year, the percentage of Shenzhen projects over the sales revenue booked was 60.0%. During the year, the average gross profit margin of projects of the Group in Shenzhen was approximately 35.6%, whereas the average gross profit margin of projects in other cities was approximately 39.0%.

Property Sales Booked in 2019

Property Name	Type	City	Booked Area (sq.m.)	Net Sales (RMB'000)	Unit Price (RMB/sq.m.)
Garden Hills	Residential/shop	Huizhou	5,250	62,317	11,870
Wanlin Lake	Residential/shop	Huizhou	50,097	515,832	10,297
Splendid City	Residential/shop	Taizhou	6,960	39,236	5,637
Euro-view Garden	Shop	Dongguan	1,712	17,994	10,510
Shum Yip City	Residential/ apartment	Foshan	5,194	96,416	18,563
Jiangyue Bay	Residential	Guangzhou	450	11,311	25,136
Nanhu Rose Bay	Residential/shop	Wuhan	1,508	44,386	29,434
Yihu Rose Garden	Residential	Chengdu	35,460	266,201	7,436
Changzhou Shum Yip Huafu	Residential	Changzhou	167	1,333	7,980
Ma'anshan Shum Yip Huafu	Residential	Ma'anshan	126,085	925,632	7,341
UpperHills	Residential	Shenzhen	934	114,664	122,767
Royal Spring Garden	Villa	Chaohu	10,364	145,947	14,082
Shum Yip Dongling	Residential	Shenzhen	25,527	1,717,678	67,289
Bofeng Building	Office	Shenzhen	1,027	43,575	42,429
Taifu Square	Apartment/office	Shenzhen	43,175	2,108,540	48,837
Shum Yip Zhongcheng	Office	Shenzhen	23,730	1,505,828	63,457
Xiaonan Street	Residential	Shenyang	1,065	7,979	7,492
Shum Yip Rui Cheng	Residential	Changsha	13,949	112,780	8,085
Shum Yip Xihui	Residential/shop	Changsha	73,529	469,580	6,386
Gaobangshan No. 1 Garden	Residential	Huizhou	90,758	851,109	9,378
Saina Bay	Villa/Shop	Heyuan	1,083	9,048	8,355
Guanlan Rose Garden	Residential	Shenzhen	1,335	32,421	24,286
Parking space sales	Parking space		–	161,157	–
Total			**519,359**	9,260,964	**–**

Note: 1,584 parking spaces were sold.

Contracted Sales

During the year, the Group realized contracted sales area of approximately 488,000 square meters and contracted sales income of approximately RMB16.80 billion. The average price per square meter was RMB34,426. The projects in Shenzhen performed extremely well: all the residential units of Shum Yip Zhongcheng I were sold out on the launch date; 90% units of Qianhai Parkview Bay were sold on the launch date; and Terra Licheng realized bulk sales of RMB3.14 billion. Besides, sales of the Group's projects in Ma'anshan, Changsha and Chengdu beat the expectations.

By geographical location, projects in the Greater Bay Area accounted for 88% of the realized contracted sales, 7% was contributed by projects in the second-tier cities, and the rest 5% was in the third-tier and fourth-tier cities. By the types of products, residential products accounted for 68% of the realized contracted sales, and commercial products (including office and apartment) accounted for 32%.

Contracted Sales in 2019

Property Name	City	Type	Sales Area (sq.m.)	Sales* (RMB million)
Shum Yip Dongling	Shenzhen	Complex	24,172	1,707
Shum Yip Zhongcheng	Shenzhen	Complex	44,878	5,736
Changzhou Shum Yip Huafu	Changzhou	Residential	2,894	8
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	79,040	722
Shum Yip Upper Life	Nanjing	Residential	1,876	49
Jiangyue Bay	Guangzhou	Residential	192	14
Saina Bay	Heyuan	Residential	1,844	18
Gaobangshan No. 1 Garden	Huizhou	Residential	59,399	611
Shum Yip City	Foshan	Residential	12,759	279
Euro-view Garden	Dongguan	Residential	4,580	70
Garden Hills	Huizhou	Residential	38,782	354
Wanlin Lake	Huizhou	Residential	2,489	40
Shum Yip Rui Cheng	Changsha	Residential	26,655	236
Shum Yip Xihui	Changsha	Residential	22,563	192
Shum Yip Heron Mansion	Changsha	Residential	24,328	324
Bofeng Building	Shenzhen	Commercial	687	25
Taifu Square	Shenzhen	Complex	19,633	1,063
Guanlan Rose Garden	Shenzhen	Residential	434	11
Yihu Rose Garden	Chengdu	Residential	35,775	231
Terra Licheng	Shenzhen	Complex	58,350	3,145
Nanhu Rose Bay	Wuhan	Complex	2,748	56
Royal Spring Garden	Chaohu	Residential	5,757	111
Qianhai Parkview Bay	Shenzhen	Residential	13,591	1,477
UpperHills	Shenzhen	Complex	467	63
Tanglang City **	Shenzhen	Complex	4,060	256
Total			**487,953**	**16,798**

* Including parking space sales.

** 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 1,180,000 square meters, and a completed area of approximately 2,251,000 square meters.

New Construction Projects in 2019

Property Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Foshan Nanhai Lishui Land Site	Foshan	Residential	79,094	51,758
Changsha Yuelu Yanghu Project	Changsha	Residential	242,577	183,561
Splendid City Phase 3	Taizhou	Residential	182,310	136,767
Nanjing Jiangning Tianyou Road (Land Plot G72)	Nanjing	Residential	111,200	69,494
Nanjing Jiangning Qinglong Subway Town (Land Plot G78)	Nanjing	Residential	102,660	71,455
Ma'anshan Shum Yip Huafu Phase 2.2 (North)	Ma'anshan	Residential	235,630	181,952
Ma'anshan Shum Yip Huafu Phase 2.2 (South)	Ma'anshan	Residential	226,947	177,301
Total			**1,180,418**	**872,288**

Completed Projects in 2019

Property Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Chengdu Jinxiu Workshop (South)	Chengdu	Commercial	11,263	6,735
Yihu Rose Garden Phase 1.2 – Longxi	Chengdu	Residential	67,221	49,354
Chaohu South Phase 1	Chaohu	Residential	5,508	5,063
Chaohu North Phase 4.2	Chaohu	Residential	6,406	6,144
Shum Yip Xihui	Changsha	Residential	102,821	81,665
Gaobangshan No.1 Garden Phase 1	Huizhou	Residential	136,102	100,609
Wanlin Lake Phase 9	Huizhou	Residential	74,143	51,893
Taifu Square Phase 1 (South)	Shenzhen	Complex	200,412	108,512
Taifu Square Phase 1 (North)	Shenzhen	Complex	104,576	51,616
Ma'anshan Shum Yip Huafu Phase 2.1	Ma'anshan	Residential	156,546	123,683
Shum Yip Zhongcheng (Land Plot 05-01)	Shenzhen	Complex	338,873	228,513
UpperHills South Besides Office T2	Shenzhen	Complex	768,009	32,521
Tanglang City West	Shenzhen	Complex	278,798	126,000
Total			**2,250,678**	**972,308**

Land Reserves

In September 2019, the Group won the bid for Lot WG029, a commercial and residential land in Songshan Lake, Dongguan at a cost of RMB2.33 billion. The project covers an area of approximately 50,000 square meters, with a capacity building area of approximately 125,000 square meters, including 79,000 square meters for the planned residential units and 35,000 square meters for subsided talents housing.

In November 2019, the Group won the bid for Lot 2019G77, a residential land in Hexi, Nanjing at a cost of RMB1.23 billion. The project covers an area of approximately 18,000 square meters, with a capacity building area of approximately 44,000 square meters, including 38,000 square meters for the planned residential units.

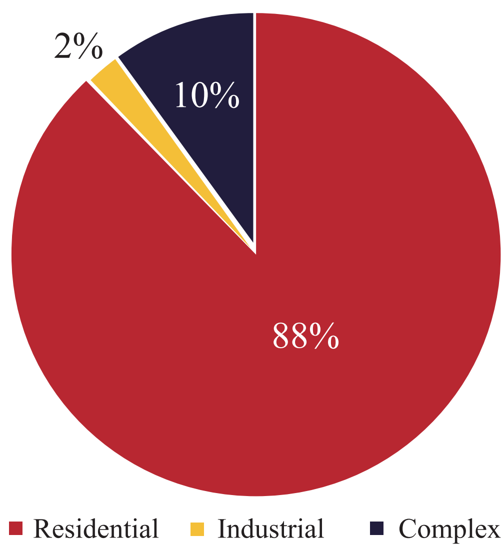
In November 2019, the Group acquired an emerging industry land lot in Bantian, Longgang district, Shenzhen through capacity expansion of its own land. The project covers an area of approximately 8,437 square meters, with a capacity building area of approximately 52,341 square meters.

By the end of December 2019, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 4.38 million square meters (of which the Group was interested in 3.83 million square meters), and a capacity building area of 3.27 million square meters (of which the Group was interested in 2.91 million square meters), of which, the projects under construction had a total planned GFA of approximately 2.18 million square meters and a capacity building area of 1.67 million square meters. The capacity building area of land reserve in the first-tier and second-tier cities and the Greater Bay Area accounted for 51% and 51% of its total capacity building area respectively. Besides, the value of completed properties held for sale amounted to approximately HK$21.5 billion.

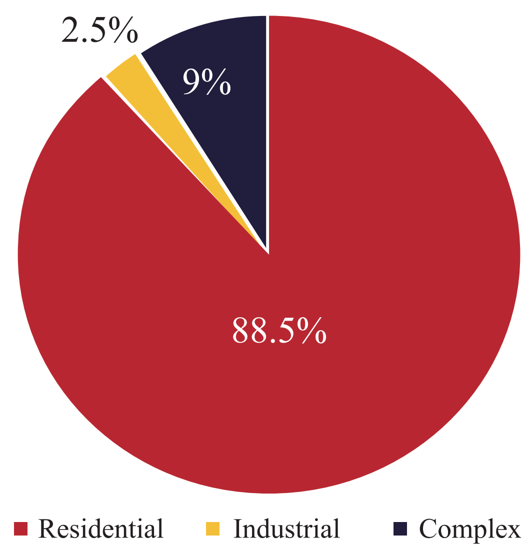
In the future, the Group will continue to focus on the Greater Bay Area, and intensify its development in Shenzhen by proactively seeking for project resources and also opportunities to invest in quality projects in the major first-tier and second-tier cities.

Distribution of Land Reserves (As at 31 December 2019)

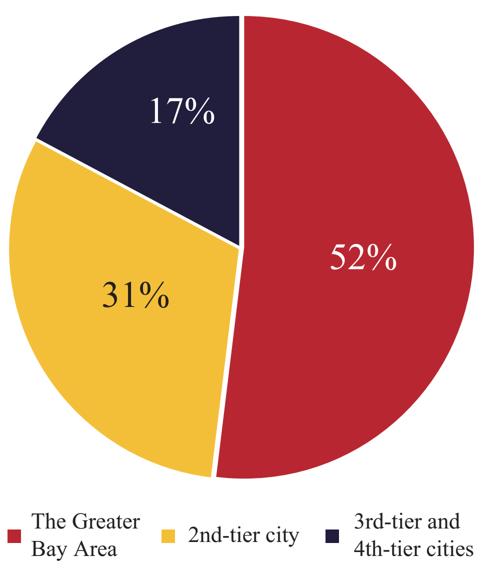
By type – Planned GFA [Note 1] (square meters)



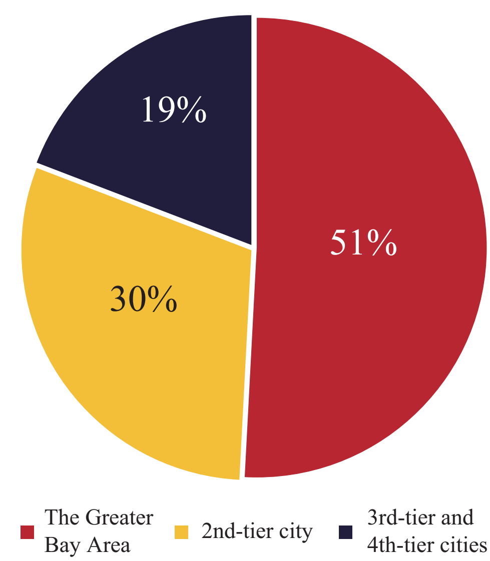
By type – Capacity Building Area [Note 2] (square meters)



By Region – Planned GFA [Note 1] (square meters)



By Region – Capacity Building Area [Note 2] (square meters)



Note:

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.

Property Investment

As at 31 December 2019, the Group has investment properties of approximately 1.29 million square meters, 81.8% of which are located in Shenzhen. During the year, the Group recorded rental income of approximately HK$1,071.0 million, representing an increase of approximately 8.9% over the last year. The gross profit margin of property investment business was approximately 68.3%, representing a decrease of 9.6 percentage points over the last year. The Group recorded a revaluation gain in its investment property portfolio of HK$1,393.0 million during the year.

Revenue from and scale of the Group's investment properties are expected to increase significantly with the completion and tenant solicitation of UpperHills and Taifu Square projects in the future. Besides, in February 2020, the Group won the bid for the renovation of Shenzhen Women and Children Tower, a public-private partnership (PPP) project, and acquired the operating rights for a period of about 19 years for property management, facilities maintenance, activities planning and other management and operation upon renovation. The project has been the first PPP project in community investment since the establishment of PPP Center in Shenzhen in 2018. The successful biding is of significant strategic importance for the Company to intensify its close cooperation with the government and expand the existing resource of governmental property renovation projects in the future.

Commercial Operation Business

In 2018, the commercial area of UpperHills ushered in its grand opening with an occupancy rate of 88%. With the completion of the construction of Lianhuashan corridor bridge and opening of Yokocho Japanese restaurants street, the passenger flow volume of the shopping mall has been significantly improved. Meanwhile, driven by the diversified activities, such as the JAZZ UP THE HILLS and the press conference of 5G Pilot, organized in the Greater Bay Area, the overall revenue of merchants is showing a growing trend, with annual turnover of over RMB2.0 billion.

The shopping center named Tanglang City was opened on 26 July 2019. As the first shopping center in Shenzhen University city district, it introduces supermarket, cinema, fitness room and many other major shops. In collaboration with a number of well-known sports brands, it aims to establish the first sports outlet in the region and promote consumption upgrade by gathering many popular food & beverage, kids & parenting and fashion and retail brands. Up to the end of 2019, the occupancy rate of Tanglang City reached 88%.

In addition, the commercial portion of Shum Yip Dongling performed well with an occupancy rate of 70%.

Property Management Business and Intelligent Park Operation Business

Properties under the management of our property management companies exceed 35.43 million square meters, mainly in the Pearl River Delta, Yangtze River Delta and Central China, covering governmental authorities, offices, residence communities and villas. Benefitted from the mixed-ownership reform, the property management company acquired 43 new projects of 3.16 million square meters in Shenzhen, Nanjing, Changsha and Nanchang during the year, beating its expectation.

On 19 August 2019, the 43 industrial parks of the Company and its ultimate holding company Shum Yip Group were displayed in the industrial park exhibition of the first Real Expo in Shenzhen, which showed the whole process of development from industrial zone, industrial and trade park, science and technology park to the smart operations of enterprise innovation ecosystem, industrial urban complex and ecological industry chain, and improved the brand awareness of the Group in terms of intelligent park construction and operation.

The Intelligent Park Operation Company manages over 2.91 million square meters of properties which are mainly located in the Guangdong-Hong Kong-Macao Greater Bay Area. During the year, the Intelligent Park Operation Company newly added 540,000 square meters in cities including Shenzhen and Xi'an to its business portfolio, realizing the expansion of its intelligent park operation and management business.

During the year, the property management business contributed approximately HK$2,099.3 million to the revenue of the Group, representing a decrease of 0.2% over the last year.

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 Shum Yip 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$198.2 million, representing a decrease of 10.5% over the last year.

Manufacturing Business

The Group's manufacturing business mainly represents the LCD manufacturing and metal materials processing business held by the companies under the Group over the years. During the year, the manufacturing business recorded operating income of approximately HK$333.9 million, representing a decrease of 2.5% 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$115.7 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 127,000 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$622.4 million for the year, representing an increase of 23.7% over the last year. The company and Shenzhen Metro Group jointly developed Shenzhen's Tanglang City Project.

Shenzhen Tianan Cyber Park (Group) Co., Ltd. made a net profit contribution of HK$464.1 million to the Group, representing an increase of 8.2% over the last year.

Performance of Associates

During the year, the associates invested by the Group performed as expected. Of these, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK$820.1 million to the Group, representing an increase of 4.4% over the last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$37.6 million to the Group, compared with a loss of HK$27.6 million for the last year.

Other Income and Gains

During the year, the Group's other income and gains was HK$315.5 million, representing a decrease of 64.1% over the last year. The decrease in other income and gains during the year was due to delay in the distribution and accounting of dividends from Hengda Real Estate of approximately HK$878 million (equivalent to RMB780 million) to January 2020. Dividends income from Hengda Real Estate was approximately HK$593 million (equivalent to RMB501 million) for the last year.

Other Operating Expense

During the year, other operating expense was HK$586.8 million, representing an increase of 103.9% over the last year. The significant increase in other operating expense during the year was due to the deficits on fixed assets revaluation of approximately HK$268.3 million. The provision was one-off and no relevant provision was made in the last year.

Significant Investment

On 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 (as amended and supplemented by subsequent supplemental agreements, 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 RMB5.50 billion to the capital of Hengda Real Estate in exchange for 1.7626% equity interests in Hengda Real Estate. Hengda Real Estate is a company established in China with limited liabilities and principally engaged in property development in China.

According to the requirements under accounting standards, the equity interests held by the Group in Hengda Real Estate was included as financial assets through profit or loss in the financial statements and accounted for at fair value, with changes in fair value recognized in profit or loss. As at 31 December 2019, the fair value of the financial asset was HK$6,788.2 million, representing 5.4% of the total assets of the Group. During the year, gains from changes in fair value amounted to approximately HK$342.3 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 a reorganization agreement (i.e. the listing of Hengda Real Estate in China as an A-share company through reorganization of China Evergrande Group). Hengda Real Estate has fulfilled its net profit undertaking for 2017 and 2018 and paid dividends of approximately RMB28.41 billion and RMB44.61 billion respectively for 2017 and 2018 to all shareholders. In the second half of 2018, the Group received dividends of approximately RMB0.5 billion for 2017. The Group was entitled to dividends of approximately RMB0.78 billion for 2018, the payment date of which were delayed from 31 December 2019 to 2 January 2020. As of the date of this announcement, Hengda Real Estate has not announced its 2019 results and financial position yet.

Additionally, pursuant to the supplemental investment agreement to the Investment Agreement dated 28 June 2017 entered into amongst Shum Yip Shenheng, Kailong Real Estate, Hengda Real Estate and Mr. Hui Ka Yan, if the above-mentioned 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.

On 13 January 2020, Shum Yip Shenheng, Kailong Real Estate, Hengda Real Estate and Mr. Hui Ka Yan entered into a supplementary investment agreement in relation to the Investment Agreement to extend the original listing deadline of the above-mentioned proposed reorganization by one year (i.e. from 31 January 2020 to 31 January 2021) and, as a result of the extension of the original listing deadline, to extend the scope of performance undertaking and indemnity and the minimum dividend payment mechanism to cover the financial year of 2020 (i.e. one additional year). To this end, Kailong Real Estate and Hengda Real Estate further undertake to Shum Yip Shenheng that the amount of net profit of Hengda Real Estate for the financial year ending 31 December 2020 will not be less than RMB60 billion.

The net profit of Hengda Real Estate for 2017 and 2018 was RMB42.00 billion and RMB72.24 billion, respectively. Since its investment in Hengda Real Estate in June 2017, the Group, as a financial investor, received total dividends of RMB1.28 billion from Hengda Real Estate, representing accumulated return on investment of 23.3%.

The Group's equity investment in Hengda Real Estate is an important part of the Group's effort in driving the reorganization plan of Hengda Real Estate with a domestic A-share company and shows the Group's support to the reorganization as a state-holding company.

The Group also considers to choose an appropriate opportunity to exit its investment in the capital market gradually upon the completion of the reorganization. Before the Completion, pursuant to the Investment Agreement, the Group will be entitled to the dividends undertaken by Hengda Real Estate. In the event the reorganization is not completed in a specified time frame, pursuant to the Investment Agreement, the Group will require Hengda Real Estate and its effective controller to fulfill their undertakings.

Financing

As at 31 December 2019, the Group's total bank and other borrowings amounted to HK$24,297.9 million (31 December 2018: HK$25,260.8 million), of which HK$17,911.1 million were floating rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK$15,891.7 million, representing approximately 65.4% of total borrowings, and short-term loans were HK$8,406.2 million, representing approximately 34.6% of total borrowings. Borrowings from Hong Kong amounted to HK$12,492.2 million, representing approximately 51.4% of total borrowings, and the remaining were borrowings from mainland China, representing approximately 48.6% of total borrowings.

During the year, the Group implemented financing innovation and the asset-based notes registration with Times Technology Tower, a property owned by the Group, as the underlying asset was completed with a registration amount of RMB1.9 billion, which expanded its additional financial resource reserve. During the year, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.7% per annum, representing a decrease of 0.1 percentage point from the last year.

As at 31 December 2019, the Group's cash balance (including restricted cash) was HK$12,372.8 million (31 December 2018: HK$12,655.2 million), of which approximately 91.6% and 8.4% were denominated in Renminbi and HK$ respectively.

As at 31 December 2019, the Group had net assets (excluding non-controlling interests) of HK$44,474.7 million (31 December 2018: HK$41,704.0 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 26.8% and the net gearing ratio with the liabilities including loan from ultimate holding company and all other interest-bearing liabilities was 40.7%, representing a decrease of 13.5 percentage points over the end of last year. The gross gearing ratio (being the ratio of total liabilities over total assets) was 61.4%.

Key Financial Position

HK$ million	**As at 31 December 2019**	As at 31 December 2018
Bank and other borrowings	**24,297.9**	25,260.8
– Long-term borrowings	**15,891.7**	19,362.2
– Short-term borrowings	**8,406.2**	5,898.5
Due to the ultimate holding company	**1,936.5**	4,735.0
Cash (including restricted cash)	**12,372.8**	12,655.2
Net gearing ratio with the liabilities including bank and other borrowings only	**26.8%**	30.2%
Net gearing ratio with the liabilities including all interest-bearing liabilities	**40.7%**	54.2%

Effect of Exchange Rate Fluctuation

The Group's assets are mainly denominated in Renminbi. 48.6% of the bank and other borrowings are denominated in Renminbi, while 51.4% 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$, the reporting currency. During the year, such changes in the asset and earnings denominated in Renminbi against HK$, the reporting currency, resulted in a fluctuation of HK$1,229.2 million 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 2019, the Group had total loans of HK$383.2 million (31 December 2018: HK$373.3 million) that were pledged with assets (please refer to note 14 to the financial information for details).

As at 31 December 2019, the Group has given guarantees amounted to RMB1,344.3 million in respect of bank loans and other borrowings to Guangzhou Pik Sum Real Estate Development Company Limited and Taizhou Shum Yip Investment Development Limited, both are joint ventures of the Group (please refer to note 17 to the financial information for details).

Employees and Remuneration Policy

As at 31 December 2019, the Group employed 21,164 employees (2018: 18,776) of whom 22 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 2019 (excluding remuneration of the Directors) amounted to approximately HK$1,919.7 million (2018: HK$1,627.0 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.

SUBSEQUENT EVENT

Effects of COVID-19

The outbreak of COVID-19 has brought great challenges to the Group's steady progress in its operations. Measures including the close of property sales centers, rental payment waiver or reduction and strengthening of property management, prevention and control had certain economic effects on the Group.

In response to the call of Shenzhen government to support enterprises to overcome the epidemic outbreak together, the Group announced a waiver of two months' rental payment of its tenants, including the non-state-owned enterprises, scientific research institutions, medical institutions and individual businesses. It is currently expected to reduce rental payment and expenses of approximately RMB180 million. The amount of rental relief may change given the uncertainties of the severity and duration of the outbreak.

In respect of sales, as the property sales centers of the Group have been closed during the epidemic prevention and control period, the contracted sales in February was significantly affected. Besides, impacted by the epidemic outbreak, the launch of some projects of the Group were delayed, which is expected to have effect on the annual value. In view of this, the Group has launched an online marketing platform for some of its properties available for online inspection, subscription and contracting by its customers, which not only ensures public safety, but also drives property sales properly.

For the construction period, due to inadequate workers returned for work and production resumption, increasing difficulties in the supply of equipment and materials and tightened materials for epidemic prevention and control in the workplaces, the construction period was delayed. According to policies issued by the housing construction department recently, construction delays due to epidemic prevention and control may be postponed. As of the date of this announcement, all project companies have resumed production broadly and are taking active measures to expedite the construction process. The progress of projects scheduled to be completed this year is currently under control.

For property management, our property management companies and intelligent park operation companies strengthened prevention and control to ensure the safety of our property owners and each park during the epidemic outbreak. Our operating income from property management decreased and operating cost increased due to the rising cost caused by epidemic prevention and control, which was partly offset by the government's subsidy to the property management companies.

In terms of capital position, currently the Group maintains sufficient liquidity. As per our internal estimation, assuming no pre-sales will be concluded in the first quarter, our cash balance will be maintained at a controlled level of approximately HK$11 billion.

DIVIDEND

The Board recommends the payment of a final dividend of HK11.00 cents per share for the year ended 31 December 2019 (2018: 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 Monday, 17 August 2020 to shareholders whose names appear on the register of members of the Company on Monday, 8 June 2020. Together with the interim dividend of HK7.00 cents per share which was paid on 18 November 2019, the total dividend for the year ended 31 December 2019 amounts to HK18.00 cents per share (2018: 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 Wednesday, 15 July 2020.

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 Tuesday, 26 May 2020 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 Wednesday, 20 May 2020 to Tuesday, 26 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 19 May 2020.

To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 5 June 2020 to Monday, 8 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 4 June 2020.

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 2019.

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 2019 final results.

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, 30 March 2020

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