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深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00604)

2020 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Shenzhen Investment Limited (the “Company”) presents the interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. These interim financial information have not been audited, but have been reviewed by the Company’s audit committee and the auditors, KPMG.

FINANCIAL HIGHLIGHTS

- The Group realized a revenue of HK\$4,121.6 million;
- The Group realized a gross profit of HK\$1,565.9 million, representing an increase of 5.7% over the same period of last year;
- Consolidated gross profit margin increased by 4.4 percentage points to 38.0% over the same period of last year; gross profit margin of property sales increased by 5.7 percentage points to 43.4% over the same period of last year;
- The Group realized other income and gains of HK\$1,023.7 million, representing an increase of 339.5% over the same period of last year;
- Profit attributable to equity shareholders was HK\$322.6 million, representing a decrease of 27.8% over the same period of last year; if excluding the net effect of the changes in fair value of investment properties and financial assets of the Group, profit attributable to equity shareholders was HK\$1,001.0 million, representing an increase of 76.1% over the same period of last year;
- Basic earnings per share were HK3.65 cents, representing a decrease of 31.3% over the same period of last year;
- Net gearing ratio (including all interest-bearing liabilities) was 36.7%, representing a decrease of 4.0 percentage points over the end of last year;
- The Board declared the payment of an interim dividend of HK7.00 cents per share, same as the interim dividend for last year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*for the six months ended 30 June 2020 – unaudited**(Expressed in Hong Kong dollars)*

		Six months ended 30 June	
		2020	2019
	Note	\$'000	\$'000
Revenue	5	4,121,596	4,404,114
Cost of sales		(2,555,737)	(2,922,536)
Gross profit		1,565,859	1,481,578
Other income and gains	5	1,023,699	232,903
Decrease in fair value of financial assets at fair value through profit or loss, net		(452,273)	(236,765)
(Decrease)/increase in fair value of investment properties		(462,759)	66,595
(Decrease)/increase in fair value upon transfer to investment properties		(1,516)	26,552
Selling and distribution expenses		(79,506)	(97,750)
Administrative expenses		(230,979)	(377,805)
Other operating expenses		(188,254)	(105,010)
Finance costs	6	(591,097)	(366,915)
Share of profits less losses of joint ventures and associates		140,029	426,236
Profit before taxation	7	723,203	1,049,619
Income tax	8	(354,693)	(494,310)
Profit for the period		368,510	555,309
Attributable to:			
Equity shareholders of the Company		322,590	447,067
Non-controlling interests		45,920	108,242
		368,510	555,309
		Six months ended 30 June	
	Note	2020	2019
Earnings per share (HK cents)	9		
Basic		3.65	5.31
Diluted		3.65	5.31

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Profit for the period	368,510	555,309
Other comprehensive income for the period:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Surplus on revaluation of investment property transferred from property, plant and equipment:		
– Changes in fair value	–	28,313
– Income tax effect	–	(7,078)
	–	21,235
<i>Items that may be reclassified subsequently to profit or loss:</i>		
– Share of changes of other comprehensive income of an associate	(84,192)	4,632
– Exchange differences on translation of foreign operations	(1,073,018)	(212,099)
	(1,157,210)	(207,467)
Other comprehensive income for the period, net of tax	(1,157,210)	(186,232)
Total comprehensive income for the period	(788,700)	369,077
Attributable to:		
Equity shareholders of the Company	(764,749)	274,512
Non-controlling interests	(23,951)	94,565
Total comprehensive income for the period	(788,700)	369,077

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2020 – unaudited**(Expressed in Hong Kong dollars)*

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		5,830,408	6,103,243
Prepaid land lease payments		31,403	32,580
Goodwill		351,980	358,892
Investment properties		32,955,285	34,241,821
Interests in associates		5,176,699	5,319,511
Interests in joint ventures		6,485,576	6,811,843
Other financial assets	<i>12</i>	7,695,253	9,036,933
Deferred tax assets		1,898,692	1,802,630
		60,425,296	63,707,453
Current assets			
Biological assets		1,804	2,205
Completed properties held for sale		20,421,326	21,457,104
Properties under development		23,558,920	22,277,161
Inventories		146,643	195,177
Trade receivables	<i>11</i>	677,811	593,612
Prepayments, deposits and other receivables		7,212,968	4,636,375
Other financial assets	<i>12</i>	1,469,601	31,095
Restricted cash		1,454,192	2,719,521
Cash and cash equivalents		17,259,360	9,653,239
		72,202,625	61,565,489

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2020 – unaudited (continued)**(Expressed in Hong Kong dollars)*

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	Note		
Current liabilities			
Interest-bearing bank loans and other borrowings		9,353,962	8,406,211
Lease liabilities		102,193	103,476
Trade payables	14	2,681,996	2,625,609
Other payables and accruals		12,199,444	13,074,208
Contract liabilities		24,064,201	18,100,667
Due to the immediate holding company		577,571	562,926
Due to the ultimate holding company		3,458,738	1,936,473
Tax payable		6,243,319	6,247,561
		<u>58,681,424</u>	<u>51,057,131</u>
Net current assets		<u>13,521,201</u>	<u>10,508,358</u>
Total assets less current liabilities		<u>73,946,497</u>	<u>74,215,811</u>
Non-current liabilities			
Interest-bearing bank loans and other borrowings		16,741,400	15,891,707
Lease liabilities		344,642	401,541
Deferred income		30,279	28,193
Due to the immediate holding company		698,663	700,920
Due to the ultimate holding company		1,094,800	—
Deferred tax liabilities		8,423,409	8,821,155
		<u>27,333,193</u>	<u>25,843,516</u>
NET ASSETS		<u>46,613,304</u>	<u>48,372,295</u>
CAPITAL AND RESERVES			
Share capital		21,910,268	21,910,268
Reserves		20,834,650	22,564,388
Total equity attributable to equity shareholders of the Company		42,744,918	44,474,656
Non-controlling interests		3,868,386	3,897,639
TOTAL EQUITY		<u>46,613,304</u>	<u>48,372,295</u>

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 REVIEW OF RESULTS

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six months ended 30 June 2020 but are extracted from the report.

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

2 BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial* reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The financial information relating to the financial year ended 31 December 2019 that is included in this preliminary announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements 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 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of material*

None of these 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 in this preliminary announcement. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, Covid-19-Related Rent Concessions, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments with amounts of \$3,462,000 credited to profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

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 and commercial properties;
- (b) the property investment segment invests in 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 attributable to each reportable segment on the following bases:

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 loss 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 purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below:

For the six months ended 30 June 2020

	Property development \$'000	Property investment \$'000	Property management \$'000	Manufacturing \$'000	Others \$'000	Total \$'000
Segment revenue:						
Sales to customers	2,170,216	560,609	917,155	127,397	346,219	4,121,596
Intersegment sales	–	8,278	23,789	–	54,196	86,263
	<u>2,170,216</u>	<u>568,887</u>	<u>940,944</u>	<u>127,397</u>	<u>400,415</u>	<u>4,207,859</u>
<i>Reconciliation</i>						
Elimination of intersegment sales						(86,263)
Revenue						<u>4,121,596</u>
Segment results before decrease in fair value of investment properties	891,269	448,913	19,231	7,816	(74,919)	1,292,310
Decrease in fair value of investment properties	–	(462,759)	–	–	–	(462,759)
Decrease in fair value upon transfer to investment properties	–	(1,516)	–	–	–	(1,516)
Segment results after decrease in fair value of investment properties	891,269	(15,362)	19,231	7,816	(74,919)	828,035
<i>Reconciliation</i>						
Elimination of intersegment results						(19,730)
Other income and gains						1,023,699
Fair value loss of financial assets measured at fair value through profit or loss, net						(452,273)
Corporate and other unallocated expenses						(65,431)
Finance costs						(591,097)
Profit before taxation						<u>723,203</u>

For the six months ended 30 June 2019

	Property development \$'000	Property investment \$'000	Property management \$'000	Manufacturing \$'000	Others \$'000	Total \$'000
Segment revenue:						
Sales to customers	2,372,145	504,391	935,532	146,359	445,687	4,404,114
Intersegment sales	–	5,404	50,133	–	8,178	63,715
	<u>2,372,145</u>	<u>509,795</u>	<u>985,665</u>	<u>146,359</u>	<u>453,865</u>	<u>4,467,829</u>
<i>Reconciliation</i>						
Elimination of intersegment sales						(63,715)
Revenue						<u><u>4,404,114</u></u>
Segment results before increase in fair value of investment properties	908,378	441,261	16,272	12,819	81,482	1,460,212
Increase in fair value of investment properties	–	66,595	–	–	–	66,595
Increase in fair value upon transfer to investment properties	–	26,552	–	–	–	26,552
	<u>–</u>	<u>26,552</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>26,552</u>
Segment results after increase in fair value of investment properties	908,378	534,408	16,272	12,819	81,482	1,553,359
<i>Reconciliation</i>						
Elimination of intersegment results						(56,527)
Other income and gains						232,903
Fair value loss of financial assets measured at fair value through profit or loss, net						(236,765)
Corporate and other unallocated expenses						(76,436)
Finance costs						<u>(366,915)</u>
Profit before taxation						<u><u>1,049,619</u></u>

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

5 REVENUE, OTHER INCOME AND GAINS

Revenue, represents sale of completed properties, commercial and industrial goods, rental income, property 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.

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of completed properties	2,170,216	2,372,145
Property management fee income	917,155	935,532
Sales of commercial and industrial goods	127,397	146,359
Others	346,219	445,687
	3,560,987	3,899,723
Revenue from other sources		
Gross rentals from investment properties <i>(note(a))</i>	560,609	504,391
	4,121,596	4,404,114
Other income and gains		
Interest income	120,058	103,096
Dividend income <i>(note(b))</i>	868,554	—
Others	35,087	129,807
	1,023,699	232,903

Notes:

- (a) During the period, the Group offered rent concessions to certain tenants as a direct consequence of COVID-19. These rent concessions amounted to \$174,576,000 are accounted for as lease modifications, of which \$64,224,000 has been recognised as a deduction to the gross rental income during the period.
- (b) Pursuant to the investment agreements disclosed in note 12, the Group received a dividend from Hengda Real Estate Group Company Limited (“Hengda Real Estate”) of \$868,455,000 during the six months ended 30 June 2020. No such dividend was received from Hengda Real Estate during the six months ended 30 June 2019.

6 FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Interest on:		
Bank loans	459,565	484,621
Other borrowings	100,059	114,270
Lease liabilities	8,700	12,216
Loans from the ultimate holding company	33,395	61,343
Loans from the immediate holding company	11,079	19,791
Loans from fellow subsidiaries	78,073	52,497
Loans from a joint venture	2,643	17,798
Loans from an other related company	3,503	3,792
Loans from non-controlling shareholders	–	4,036
Total interest expense on financial liabilities not stated at fair value through profit or loss	697,017	770,364
Interest accrued on contract liabilities	329,068	179,763
Less: Interest capitalised into properties under development	(434,988)	(583,212)
	591,097	366,915

7 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Amortisation of prepaid land lease payments	549	580
Depreciation		
– owned property, plant and equipment	76,161	90,971
– right-of-use assets	21,585	15,270
Impairment losses on property, plant and equipment (<i>note</i>)	106,584	–
Impairment losses/(reversal of impairment losses)		
– trade receivables	4,007	5,647
– prepayments, deposits and other receivables	55,237	10,169
– other financial assets	(8,020)	(2,069)

Note: During the six months ended 30 June 2020, the Group's hotel operations in mainland China was adversely affected by the outbreak of COVID-19 and certain assets related to those operations have indications of impairment. With the assistance of Jones Lang LaSalle Corporate Appraisal Limited ("JLL"), an independent firm of professionally qualified property valuers, the Group assessed the recoverable amounts of those assets based on their value in use. Impairment losses of \$106,584,000 (six months ended 30 June 2019: \$nil) were recognised in "Other operating expenses".

8 INCOME TAX

The provision for Hong Kong Profits Tax for the six months ended 30 June 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the interim period, except for those qualifying corporations which the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. 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 interim period (2019: nil).

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

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

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Current tax:		
Mainland China CIT	342,675	275,019
Withholding tax on dividend	16,528	–
LAT in mainland China	357,178	192,537
Deferred tax:		
Mainland China CIT	(372,352)	7,943
Withholding tax on dividend	28,557	42,871
LAT in mainland China	(17,893)	(24,060)
Total tax charge for the period	354,693	494,310

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$322,590,000 (six months ended 30 June 2019: \$447,067,000) and the weighted average of 8,833,437,048 ordinary shares (six months ended 30 June 2019: 8,425,838,699 shares) in issue during the interim period.

(b) Diluted earnings per share

For the six months ended 30 June 2020, the effect of conversion of share option scheme was anti-dilutive and the diluted earnings per share for the period is therefore equal to the basic earnings per share. For the six months ended 30 June 2019, the diluted earnings per share was based on 8,425,983,678 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 144,979 shares deemed to be issued at no consideration if all outstanding options had been exercised.

10 DIVIDENDS

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Dividends recognised as distribution during the period:		
Final dividend declared for 2019 – HK11.00 cents per share (six months ended 30 June 2019: declared for 2018 – HK11.00 cents per share) (i)/(ii)		
Scrip shares	161,488	675,777
Cash	810,190	252,630
	<u>971,678</u>	<u>928,407</u>
Dividend declared in respect of current period:		
Interim dividend for 2020 – HK7.00 cents per share (Interim dividend for 2019: HK7.00 cents per share) (iii)	622,993	607,461
	<u>622,993</u>	<u>607,461</u>

Notes:

- (i) The shareholders are given the option of receiving these dividends wholly in cash, or wholly in new fully paid share(s) of the Company in lieu of cash, or partly in cash and partly in the form of scrip shares.
- (ii) The Company declared a final dividend of HK11.00 cents per share in respect of year ended 31 December 2019 amounted to \$971,678,000, of which \$810,190,000 were paid in cash and the remaining balance of \$161,488,000 were settled in the form of 66,456,067 scrip shares on 17 August 2020.

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.

- (iii) On 27 August 2020, the board of directors has declared an interim dividend of HK7.00 cents per share for the six months ended 30 June 2020 (interim dividend for 2019: HK7.00 cents per share) amounted to \$622,993,000.

The amount of the interim dividend for 2020 was calculated on the basis of 8,899,893,115 shares in issue as at 27 August 2020.

11 TRADE RECEIVABLES

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Trade receivables	811,407	725,876
Less: loss allowance account	<u>(133,596)</u>	<u>(132,264)</u>
	<u>677,811</u>	<u>593,612</u>

Under normal circumstances, the Group does not grant any credit terms to its customers for the sale of properties. In respect of the remaining trade receivables, the credit terms range from 30 to 180 days from the date of billing. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Within one year	554,849	438,893
One to two years	92,962	122,226
Two to three years	<u>30,000</u>	<u>32,493</u>
	<u>677,811</u>	<u>593,612</u>

12 OTHER FINANCIAL ASSETS

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Current:		
Financial assets measured at fair value through profit or loss (FVPL)		
– Listed equity investments in Hong Kong	2,150	2,367
– Derivative financial instrument (<i>note(a)</i>)	558,348	–
– Wealth management product (<i>note(b)</i>)	878,338	–
	<u>1,438,836</u>	<u>2,367</u>
Financial assets measured at amortised cost		
– Finance lease receivables due within one year	31,373	29,296
Less: Loss allowance	(608)	(568)
	<u>30,765</u>	<u>28,728</u>
	<u><u>1,469,601</u></u>	<u><u>31,095</u></u>
Non-current:		
Financial assets measured at FVPL		
– Listed equity investments in mainland China	28,419	31,801
– Unlisted equity investments in mainland China (<i>note(a)</i>)	5,651,358	6,191,000
– Derivative financial instrument (<i>note(a)</i>)	–	597,221
	<u>5,679,777</u>	<u>6,820,022</u>
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)		
– Unlisted equity investments in mainland China	3,676	3,748
Financial assets measured at amortised cost		
– Finance lease receivables	130,517	144,210
– Other long term assets	1,960,300	2,157,680
Less: Loss allowance	(79,017)	(88,727)
	<u>2,011,800</u>	<u>2,213,163</u>
	<u><u>7,695,253</u></u>	<u><u>9,036,933</u></u>

Notes:

- (a) 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 (“Hengda Option Right”) within two months of the expiry of the Listing 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, the Group, 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.

The Group's equity investment and derivative financial instruments arising from the Investment Agreements are collectively known as Hengda Investments, which amounted to \$6,209,706,000 at 30 June 2020 (2019: \$6,788,221,000).

During the period ended 30 June 2020, there was a decrease in fair value in respect of Hengda Investments of \$451,781,000, which was recognised in the consolidated statement of profit or loss.

- (b) Wealth management product is a principal guaranteed investment with its investment return linked to 3 months United States dollar London Interbank Offered Rate.

13 PLEDGE OF ASSETS

Bank loans amounting to \$463,412,000 (31 December 2019: \$383,208,000) were secured by certain of the Group's assets with carrying amounts as below:

- (i) properties under development with a carrying amount value of approximately \$2,379,801,000 (31 December 2019: \$1,086,976,000) was used to secure banking facilities amounting to \$2,408,560,000 (31 December 2019: \$1,562,820,000), of which \$333,284,000 (31 December 2019: \$250,525,000) had been drawn down at 30 June 2020;
- (ii) land and buildings and investment properties in mainland China with net carrying amounts of approximately \$568,749,000 and \$400,587,000 (31 December 2019: \$605,816,000 and \$498,181,000) were used to secure banking facilities amounting to \$273,700,000 (31 December 2019: \$279,075,000), of which \$130,128,000 (31 December 2019: \$132,683,000) had been drawn down at 30 June 2020.

In addition to the above, other borrowings included Senior Commercial Mortgage-backed Notes of RMB1,800,000,000 issued in China Interbank Bond Market on 16 June 2020, which were secured by trade receivables and investment properties in mainland China with net carrying amounts of approximately \$9,419,000 and \$2,263,390,000 respectively (31 December 2019: \$nil and \$nil).

14 TRADE PAYABLES

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

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Within one year	2,113,936	2,026,082
One to two years	119,161	124,859
Two to three years	81,763	106,228
Over three years	367,136	368,440
	<u>2,681,996</u>	<u>2,625,609</u>

15 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for:

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Commitments in respect of the acquisition of land and buildings, and development costs attributable to properties under development: Contracted, but not provided for	<u>6,627,973</u>	<u>4,600,678</u>

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 30 June 2020, the Group had an outstanding capital commitment to Shum King Limited of \$1,947,500,000 (31 December 2019: \$1,971,500,000).

16 CONTINGENT LIABILITIES

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

As at 30 June 2020, the Group has given guarantees to a maximum extent of approximately \$7,885,289,000 (31 December 2019: \$5,144,838,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.

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

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

(b) Financial guarantees to related parties of the Group

As at 30 June 2020, the Group has given guarantees amounted to RMB1,083,571,000 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 of which are joint ventures of the Group.

CHAIRMAN'S STATEMENT

2020 has been unfolded as an extraordinary year with the global COVID-19 pandemic interweaving with the ever changing international environment. Apart from the fact that Chinese economy is at the critical period of structural adjustment, the impact of the pandemic and pressure arising from the external factors have further hit the economic conditions which were already severe. Following the pandemic in China kept under effective control, resumption of work and production was underway orderly. Thanks to the series of specific relief and supporting policies launched by the government, the economic activities have gradually resumed and signs of recovery were showed with various economic indicators.

The COVID-19 pandemic had a direct negative impact on the schedule and sales of real estate projects. However, with the effective macro policies, the policy climate and liquidity in the real estate industry were somewhat improved, which has offset the impact of the pandemic to some extent. In the second quarter, the residential market in Shenzhen saw a robust recovery with the turnaround of housing trading volume back to the average of the previous year. Under the economic stress, the business apartment market was sluggish, while a higher vacancy rate was seen in the office building market with lower rents.

Amidst the pandemic, the Group bravely shouldered its social responsibility by taking active actions to weather the hardship together with homeowners and tenants. The employees from the property management group and intelligent park management company under the Group persisted in performing responsibilities at the frontline against the pandemic by securing the safety of homeowners, residents and customers in the community and park. The Group initiatively waived rent to overcome difficulties together with our customers in concerted efforts. Meanwhile, the Group has proactively promoted the resumption of work and production and commenced online and offline marketing, ensuring on-schedule construction progress of projects. Thus, the Group has achieved expected performance.

2020 Interim Results

During the period, the Group achieved a turnover of HK\$4,121.6 million, representing a decrease of 6.4% over the same period of last year. Gross profit was HK\$1,565.9 million, representing an increase of 5.7% over the same period of last year. Net profit attributable to equity shareholders was HK\$322.6 million, representing a decrease of 27.8% over the same period of last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group and fair value of financial assets, net profit attributable to equity shareholders was HK\$1,001.0 million, representing an increase of 76.1% over the same period of last year. Basic earnings per share were HK3.65 cents, representing a decrease of 31.3% over the same period of last year. The Board has resolved to pay an interim dividend of HK7.00 cents per share for 2020 in cash.

Steady Sales Growth

The Group has seized the prime opportunities arising from the pre-sale policy adjustment and residential market turnaround by vigorously pushing forward the efforts in the sale contract of our key project, Qianhai Parkview Bay. Among the sluggish office building market, the Group has followed up with the intent of the interested major customer of Terra Licheng and achieved the block trade target of approximately RMB1.81 billion of contracted sales. During the period, the Group realized contracted sales of approximately RMB7.582 billion, representing an increase of 17.8% over the same period of last year. Its major projects include Qianhai Parkview Bay, Terra Licheng, Ma'anshan Shum Yip Huafu, Shum Yip Heron Mansion and Shum Yip Dongling, among which, approximately 73% of the Group's contracted sales were contributed by Shenzhen projects.

Maintenance of Stable Performance in Property Lease Business

During the pandemic outbreak, the Group has proactively shouldered its social responsibility. In this regard, the Group waived rent for the enterprises within the industrial parks and commercial tenants in the shopping malls to overcome difficulties together with our customers in concerted efforts. Confronted with the pandemic threats, the Group has strived to surmount all odds. On one hand, it has maintained good relationship with customers by actively supporting them for the resumption of work and production, and thus enhancing customer stickiness and brand image of the Group. On the other hand, the Group has practically and actively pushed forward the promotion of its commercial and office projects by unleashing its brand advantages. As a result, an incremental rental income of approximately HK\$120 million was recorded in commercial properties, which has partly offset the negative effect of waiving rent, thereby maintaining the stable performance of property investment business.

According to DTZ Research, the vacancy rate of office building market in Shenzhen increased to approximately 25% in the first half of the year, while the rent of Grade A office buildings decreased by approximately 14% as compared with the same period of last year. Due to the sluggish investment property market, the fair value of revaluation of investment properties of the Group decreased by approximately HK\$464 million during the period. Despite the impaired macro environment, the Group managed to maintain the average occupancy rate of its exiting properties at about 89%, which is far above the market average, by improving the operation and service quality of its properties through various efforts such as property upgrade and renovation as well as maintaining the customer relationship.

Expansion of Quality Resources

Focusing on the Guangdong-Hong Kong-Macao Greater Bay Area continuously, the Group put in greater efforts in the development in Shenzhen and planned for its business presence in key second-tier cities. Further, it has made a breakthrough in acquisition of resources.

At the beginning of July, a subsidiary of the Group entered into an agreement with Shum Yip Group, the ultimate holding parent company of the Company, pursuant to which, the subsidiary purchased the 52.848% equity interest of Shum Yip Jinzhi Logistics Development Co., Ltd. (“Shum Yip Jinzhi”) held by Shum Yip Group at a consideration of approximately RMB537 million. The principal business activities of Shum Yip Jinzhi are property development and management. Its core assets are located at Luohu District, Shenzhen City, which include the Jinyuan Building with a sales amount of approximately RMB350 million to be booked, the Zhifeng Building Project under construction with a capacity building area of 47,384 square meters and other projects currently used for leasing with an aggregate area of approximately 5,200 square meters. The Group has started a new round of asset injection through this transaction. Looking forward, the Group’s land reserve, value, revenue, profitability and sustainability in Shenzhen will be significantly improved.

During the period, the Group vigorously planned for its business presence in key second-tier cities and has acquired two pieces of land in Chengdu. Among them, the land in Chenghua District is located at the core of downtown area within the second ring road of Chengdu. It has a site area of approximately 23,000 square meters, a capacity building area of approximately 68,000 square meters and a land premium of RMB1.15 billion. It is situated in a prime geographical location where is filled with commercial atmosphere. While the land in Qingbaijiang District, Chengdu City has a site area of approximately 114,000 square meters, a capacity building area of approximately 284,000 square meters and a land premium of RMB650 million, which is highly reasonable.

During the period, the Group has innovated its way of resource acquisition. For example, it won the bid for the renovation of Shenzhen Women and Children Tower by way of PPP (public-private partnership). Upon renovation, the Group shall be responsible for the investment solicitation, property management, maintenance of facilities, organizing and planning activities and other management and operation of such project. The successful bidding is of significant strategic importance for the Group to intensify its close cooperation with the government, expand the existing resource of property renovation projects in Shenzhen as well as increasing rental income and operating income in the future.

Investment Income

The Group, as a strategic investor, contributed RMB5.5 billion for investment in the equity interests in Hengda Real Estate in 2017. Hengda Real Estate paid the Group a dividend for 2018 of approximately RMB790 million and a dividend for 2019 of approximately RMB660 million in January and July 2020, respectively. The first batch of dividend has been recognized during the period, while the second batch of dividend will also be recognized during this year. To date, the strategic investment in Hengda Real Estate has contributed considerable investment gain to the Group.

Robust Financial Position Maintained

The Group made initiative plans to strengthen its integrated fund planning and financial management to improve the capital efficiency and the return on available funds. Borrowing costs reduced by 0.33 percentage point to 4.37% by means of debt replacement and optimization of loan portfolio. As at 30 June 2020, net gearing ratio (inclusive of all interest-bearing liabilities) further decreased by 4.0 percentage points to 36.7%. Riding the prime opportunities arising from lower cost of capital, the Group pushed ahead financing innovation and increased its financial resources. During the period, the Group completed the issuance of Commercial Mortgage-backed Notes (“CMBN”) with Times Technology Building as the underlying asset with an issue amount of RMB1.9 billion, among which, the coupon rate of the senior notes was 3.28%.

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

Outlook

Post-pandemic Economic Outlook

During the prevention and control of COVID-19 in 2020, China has withstood the test by fighting the pandemic in a timely, strict and sustained manner, and with its established pandemic prevention and fight system, demonstrated its strong organization, management and execution and delivered an excellent result. With the pandemic under control, orderly resumption of all work and production throughout China has been underway and economic activities are gradually recovering. The economic policy for 2020 focuses on “ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment and expectations” as well as “ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains and the normal functioning of primary-level governments”, aiming to maintain a stable economy with proactive fiscal policy. A more flexible monetary policy has also been adopted, with faster growth of money supply and financing scale than the previous year. More support will be provided to small and medium-sized enterprises specifically. In addition, the government encourages investment in new infrastructure industries, such as 5G and big data center, as well as public services, such as healthcare and education, and proposes the new strategy to create a new development pattern whereby domestic and foreign markets can boost each other, with the domestic market as the mainstay, striving to further push forward the opening up to a higher level in order to cope with the significant uncertainties in the international environment. Benefitted from a series of effective policies and measures, some economic indicators have seen turnaround in the second half of the year.

Undoubtedly, it takes some time for the recovery of the real economy. The complicated and changing external environment, the increased Sino-US frictions and various uncertainties will continue to pose some pressure and challenges on Chinese economy for the second half of the year. However, we believe the economic development will resume normal as the real economy gradually revives and the real estate industry will gradually restore its fundamentals and develop in a healthy, orderly and sound manner under the principle that “housing is for living in, not for speculation”.

Guangdong-Hong Kong-Macao Greater Bay Area

While keeping the pandemic under effective control, Shenzhen will firmly embrace the significant historic development opportunities arising from the “dual-driven” (雙區驅動) policy (i.e. development to be driven by the Guangdong-Hong Kong-Macao Greater Bay Area and the Pilot Demonstration Zone of Socialism with Chinese Characteristics). With market-oriented business environment, well established infrastructure and efficiently operated government, Shenzhen’s economy is rich in vitality. Against the backdrop of “dual-driven” development, the synergy effect of Shenzhen and the Guangdong-Hong Kong-Macao Greater Bay Area on global industries, capital and talents will become increasingly prominent as the government creates innovative ecological industry chain and constantly completes the construction of educational, medical and cultural infrastructures.

In mid-July, the government of Shenzhen released the Notice on Further Promotion of Stable and Healthy Development of the Real Estate Market (《進一步促進房地產市場平穩健康發展的通知》) that further reaffirmed the principle that “housing is for living in, not for speculation”, and announced to curb housing speculation from various aspects, including time length requirement for housing purchase, differentiated housing credit, tax, general housing standards and management on hot sales of properties. By the end of July, Shenzhen Housing and Development Bureau (深圳市住建局) issued a notice to suspend the approval for business apartments and encourage the approved projects to change into saleable housing for talents. With the effect of such new policies, the housing market will restore its nature of primarily for reasonable self-occupying demand. In the future, the land supply for residential purpose is expected to increase and therefore, relieve the imbalanced supply and demand to a certain extent. The overheated investment demand, coupled with the increased apartment supply, may bring opportunities to the currently depressed sales of existing apartments, office buildings and to market recovery of other cities in the Greater Bay Area. In the long run, sustainable population inflow, industry clustering and economic vitality are key factors to support the development of the real estate market in a healthy manner. The development of Shenzhen and Guangdong-Hong Kong-Macao Greater Bay Area will promote the demand for industrial parks, office buildings, residential and commercial spaces in the region. With the increase in supply and improvement of supply structure, we believe the real estate market in Shenzhen and Guangdong-Hong Kong-Macao Greater Bay Area will sustain healthy and steady growth for the long run.

Seeking Breakthrough amidst Robust and Healthy Business Development throughout the Year

The year 2020 witnesses the most severe operating environment for all enterprises. In fighting the pandemic, the Group makes concerted efforts with corporate customers to go through difficulties, striving to maintain its operation and the sustainable and stable performance growth, while seeking opportunities to expand its resources proactively. Pursuant to its business plan as adjusted, the adjusted saleable value planned for the whole year is approximately RMB28 billion, and the sales will maintain the same level with the previous year. This year, the Group will ensure the completion and occupation of its key projects, including Shum Yip Zhongcheng and Taifu Square. The Group will further strengthen the management of investment properties and assist the commercial customers in resumption of operation and improve customer flows and opening rate, aiming to realize the increase in annual commercial rentals to partly offset the impact of rent concession during the pandemic, and thus maintain a stable annual rental income. The property management companies and intelligent park operation companies under the Group will explore “property management city” as a new urban management model in addition to their expansion of traditional residential communities and industrial parks. Certain urban management and operation projects have been commenced in Futian, Longgang, Pingshan, and Dapeng in Shenzhen. The Group will also actively capture the opportunities in participation of the parent company in the construction and operation of Guangming Science City, Shenzhen International Bio-Valley in Baguang, Dapeng, Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone and Zhongshan Cuiheng Industrial Park (中山翠亨園區), in an effort to play an active role in business expansion, thus achieving a great leap-forward development.

Focusing on the Bay Area and Increasing Investment in Shenzhen by Proactively Planning for Multi-Channel Resources

The Group will maintain its strategic resilience, unleash its capital advantages and increase investment in Shenzhen and the Guangdong-Hong Kong-Macao Greater Bay Area, while expanding land resources and projects through multi-channels. In terms of resource acquisition, the Group will identify various methods which are appropriate for its own development, including but not limited to: 1) deepening cooperation with its parent company to increase our land reserves in Shenzhen and the Greater Bay Area; 2) securing industrial planning and clustering abilities, capitalizing on our core advantages in industrial introduction and park operation services and expediting resource expansion; 3) relying on the Group's experience in urban renewal projects and seizing the opportunities arising from the favorable policy of "dual-driven" development to actively identify urban renewal projects in key cities in the Guangdong-Hong Kong-Macao Greater Bay Area; and 4) focusing on merger and acquisition and innovative land acquisition methods while strengthening collaboration to fully participate in the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

Deepening Transformation to Plan for the Coming Five-Year Blueprint

Riding the historic opportunity of "dual-driven" development in Shenzhen, the Group will actively align with this national development landscape and plan for its blueprint for the period of "14th Five Years Plan" with a heightened strategic position and high standard. By steering its strategic planning and driving mechanism and system innovation, the Group's urban service capability and industry clustering capability will be improved steadily; 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 become more aggressive; its sustainability and value-creating ability will be lifted to a new level in the coming five years.

Through unremitting efforts, the Group is expected to further achieve a sound, sustainable and robust development and create more satisfactory returns for its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

In the first half of 2020, the COVID-19 pandemic has caused severe impact on the global economy and even affected the macro economy profoundly. Despite the fact that real estate enterprises have encountered various difficulties in business operation caused by the pandemic outbreak, the policy climate and liquidity in the real estate industry were somewhat improved with the implementation of proactive macro policies. There were signs of recovery in the real estate market with the extent varied among different market segments. In the second quarter, the residential market experienced a robust recovery, but the apartment market and office building market remained sluggish.

In face of the pandemic and the complex business environment, the Group has taken active measures on pandemic prevention and control. It also shouldered its social responsibility by securing the safety of homeowners and commercial tenants. While overcoming difficulties together with them in concerted efforts, the Group has proactively promoted the resumption of work and production and endeavored to implement each operating task to maintain steady growth in performance.

During the period, the Group realized revenue of approximately HK\$4,121.6 million, representing a decrease of 6.4% over the same period of last year. Gross profit margin was 38.0%, representing an increase of 4.4 percentage points over the same period of last year. Gross profit was HK\$1,565.9 million, representing an increase of 5.7% over the same period of last year. Net profit attributable to equity shareholders was HK\$322.6 million, representing a decrease of 27.8% over the same period of last year. If excluding the net effect of investment properties attributable to the Group and changes in fair value of financial assets, net profit attributable to equity shareholders was HK\$1,001.0 million, representing an increase of 76.1% over the same period of last year. Basic earnings per share were HK3.65 cents, representing a decrease of 31.3% over the same period of last year.

Property Development Business

Sales Revenue Booked

During the period, the Group recorded property sales booked of 90,696 square meters (excluding interests attributable to the major associates of the Group), representing a decrease of 44.6% over the same period of last year, and achieved net revenue from property sales of approximately RMB1,964.7 million (equivalent to HK\$2,170.2 million), representing a decrease of 8.5% over the same period of last year. Gross profit margin of property development and sales was 43.4%, representing an increase of 5.7 percentage points over the same period of last year. During the period, the percentage of Shenzhen projects over the sales revenue booked was 64.5%. During the period, the average gross profit margin of projects of the Group in Shenzhen was approximately 46.4%, whereas the average gross profit margin of projects in other cities was approximately 37.9%.

Property Sales Booked in the First Half of 2020

Property Name	City	Type	Booked Area (sq.m.)	Net Sales (RMB' 000)	Unit Price (RMB/sq.m.)
UpperHills	Shenzhen	Residential	1,268	167,862	132,383
Taifu Square	Shenzhen	Office/apartment	4,169	223,678	53,653
Shum Yip Dongling	Shenzhen	Residential/kindergarten	4,942	290,564	58,795
Shum Yip Zhongcheng	Shenzhen	Apartment	5,111	586,112	114,677
Jiangyue Bay	Guangzhou	Residential	98	1,223	12,480
Euro-view Garden	Dongguan	Shop	298	2,767	9,285
Garden Hills	Huizhou	Residential/shop	477	6,116	12,822
Wanlin Lake	Huizhou	Residential/shop	1,369	13,721	10,023
Gaobangshan No. 1 Garden	Huizhou	Shop	1,977	49,234	24,903
Shum Yip City	Foshan	Residential	3,257	61,361	18,840
Saina Bay	Heyuan	Shop	362	3,102	8,569
Yihu Rose Garden	Chengdu	Residential	3,117	27,459	8,809
Shum Yip Xihui	Changsha	Shop	2,361	16,951	7,180
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	61,759	491,804	7,963
Royal Spring Garden	Chaohu	Villa	131	2,296	17,527
Parking space sales		Parking space	—	20,458	—
Total			90,696	1,964,708	—

Note: 226 parking spaces were sold.

Contracted Sales

During the period, the Group realized contracted sales area of 256,396 square meters and contracted sales income of approximately RMB7.582 billion. The average price per square meter was RMB29,572. The contracted sales were mainly attributable to the residential project of Qianhai Parkview Bay in Shenzhen which realized a contracted sale of approximately RMB2.79 billion and the office building project of Terra Licheng in Shenzhen which realized a contracted sale of RMB1.81 billion in block trades. Besides, sales of the Group's projects in third-tier and fourth-tier cities beat the expectations. By the end of June 2020, the Group's unbooked contracted sales amount was approximately HK\$31.2 billion.

By geographical location, projects in the Greater Bay Area accounted for 79% of the realized contracted sales, 10% was contributed by projects in the second-tier cities, and the rest 11% was in the third-tier and fourth-tier cities. By the types of products, residential products accounted for 64% of the realized contracted sales, and commercial products (including office and apartment) accounted for 36%.

Contracted Sales in the First Half of 2020

	City	Type	Sales Area (sq.m.)	Sales* (RMB'000)
UpperHills	Shenzhen	Complex	1,268	176,250
Shum Yip Zhongcheng	Shenzhen	Complex	1,638	179,350
Shum Yip Dongling	Shenzhen	Complex	5,262	327,520
Taifu Square	Shenzhen	Complex	1,319	84,830
Terra Licheng	Shenzhen	Complex	30,473	1,814,820
Qianhai Parkview Bay	Shenzhen	Residential	28,856	2,786,850
Tanglang City**	Shenzhen	Complex	2,298	137,256
Jiangyue Bay	Guangzhou	Residential	24	447
Gaobangshan No.1 Garden	Huizhou	Residential	20,594	222,549
Garden Hills	Huizhou	Residential	13,608	119,280
Wanlin Lake	Huizhou	Residential	1,581	15,532
Shum Yip City	Foshan	Residential	4,985	81,538
Saina Bay	Heyuan	Residential	228	2,242
Yihu Rose Garden	Chengdu	Residential	4,871	46,810
Shum Yip Heron Mansion	Changsha	Residential	29,970	408,064
Shum Yip Rui Cheng	Changsha	Residential	387	2,580
Shum Yip Xihui	Changsha	Residential	1,571	7,116
Nanhu Rose Bay	Wuhan	Complex	0	1,925
Shum Yip Upper Life	Nanjing	Residential	11,654	303,336
Changzhou Shum Yip Huaifu	Changzhou	Residential	332	801
Ma'anshan Shum Yip Huaifu	Ma'anshan	Residential	59,326	561,901
Splendid City	Taizhou	Residential	36,151	301,228
Total			256,396	7,582,225

* 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 period, the Group had a new construction area of 209,175 square meters.

New Construction Projects in the First Half of 2020

Property Name	City	Type	Total GFA (sq.m.)	Saleable Area (sq.m.)
Chengdu Chenghua				
Haibinwan Project	Chengdu	Residential	59,131	40,958
Taifu Square Phase 2	Shenzhen	Complex	106,106	41,909
Tuen Mun (Land Plot 520)*	Hong Kong	Residential	43,938	43,938
Total			209,175	126,805

* The project was co-developed with Road King Infrastructure Limited, as to 50% owned by the Group, and it is accounted using equity method.

Expansion of Land Resources

During the period, by vigorously implementing its development strategy of expanding the land resources in core second-tier cities, the Group acquired two pieces of prime land in Chengdu. In May, our Group won the bid for a piece of residential land in Shuanglinbeiheng Road, Chenghua District, Chengdu City with an average cost of approximately RMB16,800 per square meter at a consideration of RMB1.15 billion. The project has a site area of approximately 23,000 square meters and a capacity building area of approximately 68,000 square meters, of which 31,000 square meters and 23,000 square meters were planned to be built into foreign-style houses and low-rise residential buildings, respectively. In June, the Group, by way of industrial introduction, acquired a piece of commercial and residential land, i.e. the Phoenix New Town in Qingbaijiang District, Chengdu City with an average cost of approximately RMB2,300 per square meter at a consideration of RMB650 million. The project has a site area of approximately 114,000 square meters and a capacity building area of approximately 284,000 square meters, of which 139,000 square meters and 145,000 square meters were planned to be built into residential buildings as well as commercial and office buildings, respectively.

The Group has been proactively expanding the resources in the Greater Bay Area. In July, the Group announced the acquisition of the 52.848% equity interest of Shum Yip Jinzhi held by Shum Yip Group, the ultimate holding company of the Company, at a consideration of approximately RMB537 million. Through the acquisition, the Group obtained a range of high quality assets in Luohu District, Shenzhen including the Jinyuan Building which has been contracted for sale and completed and passed the inspection, the Zhifeng Building which is under construction, the potential urban renewal project of “Sungang Phase I Project”, the office buildings and land parcel which are currently leased out as well as a wholly-owned property management subsidiary. As a practice of the Group’s development strategy of “focusing on the Greater Bay Area and intensifying development in Shenzhen”, this acquisition is beneficial to enhancing the Group’s revenue and profitability in recent years and promoting sustainable development in the long run.

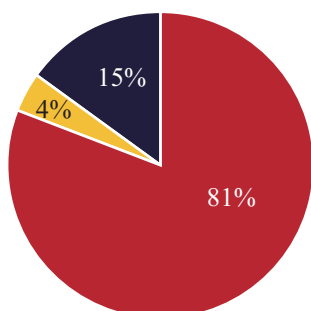
Land Reserves

By the end of June 2020, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 4.86 million square meters (of which the Group was interested in 4.18 million square meters), and a capacity building area of 3.66 million square meters (of which the Group was interested in 3.19 million square meters), of which, the projects under construction had a total planned GFA of approximately 2.46 million square meters and a capacity building area of 1.87 million square meters. The GFA and capacity building area of land reserve in the first-tier and second-tier cities and the Greater Bay Area accounted for 57% and 46% of its total capacity building area respectively. Besides, the value of completed properties in stock amounted to approximately HK\$20.42 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.

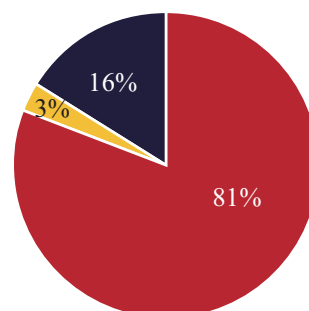
Distribution of Land Reserves (As at 30 June 2020)

By type – Planned GFA ^{Note 1}
(sq.m.)



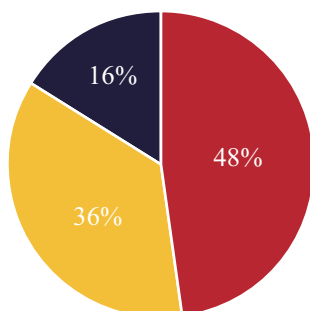
■ Residential ■ Industrial ■ Complex

By type – Capacity Building Area ^{Note 2}
(sq.m.)



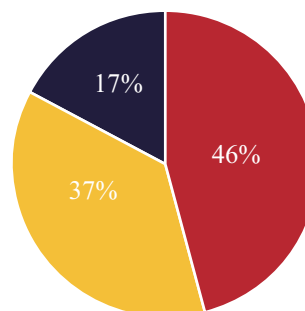
■ Residential ■ Industrial ■ Complex

By Region – Planned GFA ^{Note 1}
(sq.m.)



■ The Greater Bay Area ■ 2nd-tier cities ■ 3rd-tier and 4th-tier cities

By Region – Capacity Building Area ^{Note 2}
(sq.m.)



■ The Greater Bay Area ■ 2nd-tier cities ■ 3rd-tier and 4th-tier cities

Notes:

1. Planned GFA: the sum of the gross floor area of all the floors above and under the ground of a single building or buildings within the scope of the land for construction.
2. Capacity building area: the sum of the gross floor area which is used in the calculation of the plot ratio within the land for construction.

Property Investment

As at 30 June 2020, the Group had investment properties of approximately 1.29 million square meters, 82.1% of which were located in Shenzhen. During the period, the Group recorded an income from property investment of approximately HK\$560.6 million, representing an increase of approximately 11.1% over the same period of last year. Among them, there was a decrease in rental income of existing investment properties due to the fact that a waiver of rent was implemented during the outbreak of the pandemic, has affected the accounting adjustments to be made based on the amortisation recognized in the lease term. However, there was incremental rental income contributed by new properties and commercial properties, which has partly offset the impact of waiver of rent in the existing investment properties. The gross profit margin of property investment business was approximately 80.3%, representing an increase of 2.6 percentage points over the same period of last year.

Due to the fact that the overall office building rental market was sluggish in Shenzhen impacted by the pandemic, the Group recorded a revaluation decrease in the fair value of its investment property portfolio of HK\$464.3 million during the period.

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 investment solicitation and leasing, property management, facilities maintenance, activities planning and other management and operation upon renovation. Upon renovation and commencement of operation, the project is expected to contribute rental income and operating income to the Group.

Asset-light Operation Business

The asset-light operation business of the Group includes commercial operation business, property management business and intelligent park operation business. During the pandemic outbreak, all the operation and management companies persisted in performing responsibilities at the frontline by assisting the major commercial customers and residents in fighting the pandemic, which had received overwhelming recognition. During the period, the property management business contributed approximately HK\$917.2 million to the revenue of the Group, representing a decrease of 2.0% over the same period of last year. Furthermore, its mixed-ownership reform was propelled orderly.

Since March, the commercial operation management companies had actively assisted all the major commercial tenants in the resumption of work and conducted online and offline campaigns to increase foot traffic, so as to boost sales. At present, operation of all the shopping malls runs well. More precisely, the occupancy rates of UpperHills, Tanglang City and Shum Yip Dongling are 84%, 83% and 60%, respectively, whereas the new commercial project of Taifu Square is available for leasing now.

Properties under the management of our property management companies exceed 37.53 million square meters, mainly in the Pearl River Delta, Yangtze River Delta and Central China, covering governmental authorities, offices, residence communities and villas. During the period, our property management companies acquired 31 new projects of 2.85 million square meters in Guangdong, Jiangxi, Jiangsu and other areas.

The intelligent park operation and management companies manage over 2.91 million square meters of properties in industrial park which are mainly located in the Guangdong-Hong Kong- Macao Greater Bay Area.

Our property management companies and intelligent park operation and management companies have actively explored “property management city” as a new urban management model to deliver a demonstration reform project in market-oriented and professionalized urban management and operation. Currently, efforts have been made in Futian District, Pingshan District, Dapeng District and other areas in Shenzhen to implement the development roadmap in serving the city.

Hotel Operation Business

The Group owns five hotels in operation and one hotel under 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), Muji Hotel (with 79 guest rooms) in UpperHills, Shenzhen and Tanglang City Project Hotel in Shenzhen (with 200 guest rooms), which is co-developed with Shenzhen Metro Group. The hotel under construction is Mandarin Oriental Shenzhen (with 190 guest rooms planned).

During the period, the hotel industry achieved unsatisfactory results in business operation due to the severe impact from the pandemic. The Group's hotels recorded operating income (included under other operating segment) of approximately HK\$30.0 million, representing a decrease of 69.8% over the same period of 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 period, the manufacturing business recorded operating income of approximately HK\$127.4 million, representing a decrease of 13.0% over the same period of last year.

Performance of Major Joint Ventures and Associates

During the period, Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) made a loss contribution of HK\$16.2 million to the Group. The principal activity of the company is to assist local government in primary land development. During the period, there was no land launched by the local government.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of HK\$0.9 million, representing a decrease of 98.2% over the same period of last year. The company and Shenzhen Metro Group jointly developed Shenzhen's Tanglang City Project.

Shenzhen Tianan Cyber Park (Group) Co., Ltd. (a 37.5% owned company of the Group) made a net profit contribution of HK\$37.3 million to the Group, representing a decrease of 68.8% over the same period of last year.

During the period, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK\$116.1 million to the Group, representing a decrease of 50.5% over the same period of last year.

Other Income and Gains

During the period, the Group's other income and gains were HK\$1,023.7 million, representing a significant increase of 339.5% over the same period of last year. During the period, other income was mainly attributable to the dividend for 2018 of approximately HK\$869 million (equivalent to RMB790 million) paid by Hengda Real Estate to the Group in January 2020. No relevant dividend income was received for the same period of last year. The Group had received the dividend for 2019 of approximately HK\$729 million (equivalent to RMB660 million) paid by Hengda Real Estate in July 2020, which will be accounted for in the second half of the year.

Other Operating Expense

During the period, other operating expense was HK\$188.3 million, representing an increase of 79.3% over the same period of last year. During the period, the impairment loss recognised on fixed assets amounted to approximately HK\$106.6 million, which was one-off and no relevant impairment loss was recognised for the same period of 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(Ma'anshan 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 and the derivative financial instrument arising from the Investment Agreement 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 for the period. As at 30 June 2020, the fair value of the financial asset arising from the Investment Agreement was HK\$6,209.7 million, representing 4.7% of the total assets of the Group. During the period, losses arising from changes in fair value amounted to approximately HK\$451.8 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). Pursuant to the Investment Agreement, Hengda Real Estate has paid dividends of approximately RMB28.41 billion, RMB44.61 billion and RMB27.52 billion respectively for 2017, 2018 and 2019 to all shareholders. In the second half of 2018, the Group received dividends of approximately RMB0.5 billion for 2017, while in January and July 2020, the Group received dividends of approximately RMB0.79 billion for 2018 and approximately RMB0.66 billion for 2019, respectively.

Additionally, pursuant to the Investment Agreement, 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, 2018 and 2019 was RMB42.00 billion, RMB72.24 billion and RMB42.87 billion, respectively. Since its investment in Hengda Real Estate in June 2017, the Group, as a financial investor, received total dividends of RMB1.95 billion from Hengda Real Estate, representing accumulated return on investment of approximately 35.5%.

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 choosing 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 such exit undertakings.

Financing

As at 30 June 2020, the Group's total bank and other borrowings amounted to HK\$26,095.4 million (31 December 2019: HK\$24,297.9 million), of which HK\$18,463.0 million were floating rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK\$16,741.4 million, representing approximately 64.2% of total borrowings, and short-term loans were HK\$9,354.0 million, representing approximately 35.8% of total borrowings. Offshore borrowings amounted to HK\$12,850.1 million, representing approximately 49.2% of total borrowings, and the remaining were onshore borrowings denominated in Renminbi, representing approximately 50.8% of total borrowings.

During the period, the Group implemented financing innovation, and the CMBN issuance with Times Technology Tower, a property owned by the Group, as the underlying asset was completed with an issue amount of RMB1.9 billion, among which, the coupon rate of the senior notes was 3.28%. During the period, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.37% per annum, representing a decrease of 0.33 percentage point from the whole of last year.

As at 30 June 2020, the Group's cash balance (including restricted cash) was HK\$18,713.6 million (31 December 2019: HK\$12,372.8 million), of which approximately 93.3% and 6.7% were denominated in Renminbi and HK\$ respectively.

As at 30 June 2020, the Group had net assets (excluding non-controlling interests) of HK\$42,744.9 million (31 December 2019: HK\$44,474.7 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 17.3% and the net gearing ratio with the liabilities including loan from shareholders of the parent company and all other interest-bearing liabilities was 36.7%, representing a decrease of 4.0 percentage points over the end of last year.

Key Financial Position

<i>HK\$ million</i>	As at 30 June 2020	As at 31 December 2019
Bank and other borrowings	26,095.4	24,297.9
– Long-term borrowings	16,741.4	15,891.7
– Short-term borrowings	9,354.0	8,406.2
Due the immediate holding company	1,276.2	1,263.8
Due to the ultimate holding company	4,553.5	1,936.5
Cash (including restricted cash)	18,713.6	12,372.8
Net gearing ratio with the liabilities including bank and other borrowings only	17.3%	26.8%
Net gearing ratio with the liabilities including all interest-bearing liabilities	36.7%	40.7%

Effect of Exchange Rate Fluctuation

The Group's assets are mainly denominated in Renminbi. 50.8% of the bank and other borrowings are denominated in Renminbi, while 49.2% 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 period, such fluctuations in the asset and earnings denominated in Renminbi against HK\$, the reporting currency, resulted in a loss of HK\$1,073.0 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 30 June 2020, the Group had total bank and other borrowings of HK\$2,434.1 million (31 December 2019: HK\$383.2 million) that were pledged with assets (please refer to note 13 to the financial information for details).

As at 30 June 2020, the Group has given guarantees amounted to RMB1,083.6 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 16 to the financial information for details).

Employees and Remuneration Policy

As at 30 June 2020, the Group employed 19,603 employees (30 June 2019: 18,950) 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 six months ended 30 June 2020 (excluding remuneration of the Directors) amounted to approximately HK\$763.9 million (six months ended 30 June 2019: HK\$810.7 million).

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

INTERIM DIVIDEND

The Board has declared an interim dividend of HK7.00 cents per share for the six months ended 30 June 2020 (2019: HK7.00 cents) to be paid in cash on or about Thursday, 15 October 2020 to shareholders whose names appear on the register of members of the Company on Monday, 14 September 2020. Based on the number of issued shares of the Company as at the date of this announcement, the interim dividend will amount to an aggregate sum of approximately HK\$623.0 million.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 11 September 2020 to Monday, 14 September 2020 (both dates inclusive), during which period no transfers of shares will be registered. To qualify for the interim dividend, all duly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 10 September 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 six months ended 30 June 2020.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee comprises three independent non-executive directors namely Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar, David. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2020.

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 six months ended 30 June 2020.

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 six months ended 30 June 2020.

By Order of the Board
SHENZHEN INVESTMENT LIMITED
LU Hua
Chairman

Hong Kong, 27 August 2020

As at the date of this announcement, the Board comprises 9 directors, of which Dr. LU Hua, Mr. HUANG Wei, Ms. CAI Xun, Mr. DONG Fang and Mr. LIU Shichao are the executive directors of the Company, Dr. WU Jiesi is the non-executive director 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.