深圳控股有限公司
SHENZHEN INVESTMENT LIMITED
股份代號 Stock Code: 00604

二零一七年中期報告

Interim Report 2017

Contents

Corporate Information

Executive Directors

Dr. LU Hua, *Chairman*
Mr. HUANG Wei, *President*
Mr. MOU Yong
Mr. LIU Chong

Non-Executive Directors

Dr. WU Jiesi
Mr. HUANG Yige (Resigned on 18 January 2017)
Mr. LIU Shichao (Appointed on 18 January 2017)

Independent Non-Executive Directors

Mr. WU Wai Chung, Michael
Mr. LI Wai Keung
Dr. WONG Yau Kar, David

Company Secretary

Mr. LEE Ka Sze, Carmelo

Auditors

KPMG
Certified Public Accountants
Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo, Solicitors & Notaries

Principal Bankers

Bank of China (Hong Kong) Ltd.
DBS Bank Ltd., Hong Kong Branch
The Bank of East Asia, Ltd.
China Construction Bank (Asia) Corporation Ltd.
Shanghai Pudong Development Bank Co., Ltd.
  Hong Kong Branch
Hang Seng Bank Ltd.
Nanyang Commercial Bank Ltd.
Wing Lung Bank Ltd.

Registered Office

8th Floor, New East Ocean Centre,
9 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited
(Stock code: 00604)

Share Registrar

Tricor Standard Limited
Level 22 Hopewell Centre,
183 Queen's Road East, Hong Kong

Website

www.shenzheninvestment.com

Chairman's Statement

In the first half of 2017, the impact of real estate macro-control policies, including price control and destocking, varied obviously among cities. Policies in the first-and second-tier cities became more stringent, as they were in other hot cities. Affected by comprehensive real estate control policies, namely "limitations on purchase, loan, and pricing", the real estate market in Shenzhen saw a substantial decrease in transaction volume and maintained a stable price. On the other hand, the majority of third-and fourth-tier cities remained focus on destocking and saw a continuous market recovery.

In response to market conditions in different cities and on the basis of profitability, the Group moderately adjusted its operating strategies to expand its land resources in the first-tier cities, and completed the disinvestment of the real estate projects in the third-and fourth-tier cities broadly by capturing the opportunity of real estate pickup on sales in such cities, contributing to a satisfactory performance in the first half of the year.

2017 Interim Results

During the period, the Group achieved a turnover of HK$5,453.8 million, representing a decrease of 14.6% over the same period of last year. Net profit attributable to shareholders was HK$3,628.7 million, representing an increase of 119.3% over the same period of last year. If excluding the net effect of the changes in fair value of investment properties attributable to the Group and gain on a bargain purchase over the same period of last year, net profit attributable to shareholders was HK$3,424.6 million, representing an increase of 4.82 times over the same period of last year. Basic earnings per share were HK47.42 cents, representing an increase of 111.6% over the same period of last year. The Board has declared an interim dividend of HK7.00 cents per share for 2017 in cash (with a scrip dividend alternative).

Stable Sales Results

Against the backdrop of stringent market control, the Group still achieved contracted sales of approximately RMB9 billion through bulk sales of office buildings and apartments in the first half of the year, of which, the contribution from Shenzhen projects accounted for approximately 76%. While the contracted sales in the first half of the year decreased over the same period of last year, sales of the Group's main projects including Tanglang City, Ma'anshan Shum Yip Huafu, UpperHills and Shum Yip Dongling performed as expected.

Chairman's Statement

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

The Group has been committed to promoting the disposal of projects in the third-and fourth-tier cities for recent years. The pickup of real estate market in the third-and fourth-tier cities since last year has created a favorable condition for the Group's disinvestment in such cities. During the period, the Group disposed of its interests in five project companies located in Sanshui, Guangdong, Taizhou, Jiangsu, and Jiangyan, Jiangsu through public listing-for-sale process at a total consideration of RMB5.87 billion, recording earnings after tax of approximately HK$3.33 billion. Through such transactions, the Group broadly completed the disinvestment of projects in the third-and fourth-tier cities, resulting in a decrease of its proportion of land reserves in the third-and fourth-tier cities from approximately 49% to 34%, which further optimized the structure of land reserves.

Expansion of Quality Land Resources

The Group's strategy is to intensify the development in Shenzhen while focusing on the development in the first-and second-tier key cities. In addition to its further development in Shenzhen, the Group also identifies investment opportunities of high-quality projects in cities such as Hong Kong, Guangzhou and Nanjing. During the period, Shum King Company Limited, a joint venture owned as to 50% equity interests respectively by each of the Company and Road King Infrastructure, successfully acquired the Tuen Mun Town Lot No.520 in Hong Kong at a consideration of HK$3.17 billion. With an area of approximately 12,205 square meters and a gross floor area of 43,938 square meters, the land is located at Sham Tseng/Castle Peak Road (Tuen Mun) area in Hong Kong, a high-quality commercial and residential district between a country park and the coast. Boasting stunning environment and convenient traffic to Shenzhen, the land is planned to be developed into a private residential property. The successful land acquisition in Hong Kong is an attempt for the Group to enter into the Hong Kong market, which facilitated the Group's expansion of land in the first-tier city, optimized its asset structure and was helpful to improve its sustainability in the future.

During the period, the Group proactively followed up the expansion of quality land resources in Shenzhen. In terms of urban redevelopment, the Group, together with the parent company, successfully obtained the qualification as a general coordinator for certain reformation projects in areas including Bagualing, Chegongmiao, Xin'an and Nantou Ancient Town in Shenzhen, with an aggregate area of nearly 10 square kilometers. During the period, each reformation project has progressed as scheduled. The planning schemes for Chegongmiao and Bagualing have been approved by the government, thus paving a solid foundation for the Group to compete for more resources for urban redevelopment in Shenzhen.

Chairman's Statement

Propelling Capital Operation through Investment in Hengda Real Estate

During the period, the Group made a capital contribution of RMB5.50 billion to subscribe the equity interests of Hengda Real Estate, accounting for approximately 2.0522% of the enlarged share capital of Hengda Real Estate. According to the announcement of China Evergrande dated 3 October 2016, China Evergrande would list Hengda Real Estate in China as an A-share company through reorganization. Through the subscription, the Company would become a strategic investor of Hengda Real Estate before reorganization. Investment in Hengda Real Estate is in line with the Company's strategic direction of intensifying the development in Shenzhen and beneficial for the Group to strengthen its cooperation with Hengda Real Estate at project level. It is expected to generate stable returns to the Group.

Sound Financial Position Maintained

The Group continued to maintain a good sales proceeds collection, strengthen integrated fund planning and management and optimize its loan portfolio to reduce its finance costs and keep the gearing ratio at a lower level. As of 30 June 2017, net gearing ratio (including all interest-bearing liabilities) of the Group was 39.2%.

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

Outlook

Shenzhen market is under an adjustment period, but the quality assets still have long-term value

Real estate market is complex and volatile. Under stringent macro-controlling policies, Shenzhen real estate market has entered into an adjustment period, representing by slacking supply and demand, a substantial decrease in transaction volume and a relatively stable price. It's anticipated that the macro-controlling policies on real estate will continue in the second half of the year, and the transaction volume and price will remain at the current level. In the long run, Shenzhen is becoming an innovative center of the PRC. As the development strategy of the Guangdong – Hong Kong – Macau big bay area is carried out, Shenzhen will further stand out itself as "a core area of technology innovation", with rising competition and stronger attractiveness to non-local population, accordingly, the conflict between robust housing demand and scarcity of land resources is hardly to change in the short term. I believe that, the aforementioned fundamentals will strongly support the long term development of the real estate market in Shenzhen and the quality assets at core areas of Shenzhen have long-term value.

Chairman's Statement

Against the stringent macro-controlling policies, the Group will consistently make it a priority to ensure the shareholders' interests and focus on corporate profit growth and realization of the long-term value of its assets. The Group will take account of the macro-controlling policies and current market conditions to seek for the achievement of long-term value of high-quality projects by adjusting sales models on a condition of ensuring the security of corporate capital chain and profit growth.

Housing rental is becoming predominant as the long-term effective mechanism of the real estate industry gradually develops

As the real estate industry in the PRC develops in the last 20 years, the current average living space per capita in the PRC has reached to 40 square meters, resulting in the increase in the market reaches its limitation. The Central Government recently proposed to establish a long-term effective mechanism for real estate to guide real estate companies to deleverage to control risks. I believe that, the return of houses to their living purpose is an important principle to establish a long-term effective mechanism for real estate and will also become the policy direction in the future. Of which, the development of housing rental market will play an important part in accelerating the supply-side structural reform in real estate market and establishing the housing system of co-development of purchasing and rental market.

The Group has previously entered into the long-term leasing apartment business through its previous launch of the "Youth Apartment Scheme" together with relevant authorities in Shenzhen. We will continue to pay attention to the formulating of relevant policies and project opportunities on long-term leasing apartment business in key cities, put great efforts in creating our proprietary brand for long-term leasing apartment and explore sustainable business opportunities of long-term leasing apartment development in key cities.

Methods of acquiring land need to be changed as it is more and more difficult to acquire land resources

With rising costs and higher risks in acquiring land through public market given the current real estate market condition, it is extremely difficult to acquire the quality projects. The Group upholds the principle of "cooperation + collaboration" and flexibly chooses methods of resources acquisition suitable for itself:

– deepening its cooperation with its parent company to increase its land reserves in Shenzhen and the big bay area;

– strengthening the cooperation on mergers and acquisitions with state-owned and private enterprises to increase new projects in Shenzhen;

Chairman's Statement

– leveraging on the Group's advantage as a coordinator in urban areas reformation in Shenzhen as well as its professional abilities in introducing industries, comprehensive operation and arranging public space and ancillary facilities to secure more quality land resources by collaborating with the government in the process of urban redevelopment;

– capitalizing on its overseas investment advantage and improving professional abilities in park operation services to proactively expand more resources in the construction of the Guangdong – Hong Kong – Macau big bay area and continue to identify project opportunities in key cities including but not limited to Hong Kong, Guangzhou and Nanjing.

Consistently following the corporate vision of "Leader in Value Creation for City Spaces", the Group will continue to firmly intensify the development in Shenzhen while focusing on the development strategies in the first-and second-tier key cities. By intensifying the development in Shenzhen, maintain steady growth in the size of development and sales; by moderately enlarging the scale of its investment properties, optimizing its investment properties portfolio, constantly seek higher asset quality and level of return; and by building an operation and service platform with core competitiveness, leverage on its professional operation advantages to continuously enhance value of the urban space.

I believe that, through unremitting efforts, the Group will be able to achieve a balance between scale expansion and value enhancement in the next five years and a constant optimization of the structure of land reserves and assets by leveraging on urban operation advantage, proactively innovating methods of resource acquisition, establishing itself in Shenzhen whilst paying attention to the Guangdong – Hong Kong – Macau big bay area to bring better returns to its shareholders.

LU HUA
Chairman

30 August 2017

Management Discussion and Analysis

Overall Results

In the first half of 2017, under the continuous impact of the tightening control polices for the real estate market in Shenzhen, the trading volume of new houses curtailed and prices remained stable. While the market sentiment returned to a rational level, the housing demand was still strong. In addition, benefited from their destocking policy and the control effect in hot cities, the third- and fourth-tier cities took over the demand "spillover" from their neighboring first-tier and hot second-tier cities and saw a pickup both in terms of trading volumes and prices.

In response to the stringent control policies, the Group actively adapted its strategies against the market trend. It seized the prime time of market recovery and proactively promoted its property sales and entire disposal of the projects in the third- and fourth-tier cities, leading to a satisfactory performance with a substantial increase in profit.

For the six months ended 30 June 2017, the Group achieved a turnover of approximately HK$5,453.8 million, representing a decrease of 14.6% over the same period of last year. Gross profit margin was 40.3%, representing an increase of approximately 6.5 percentage points over the same period of last year; gross profit was HK$2,197.0 million, representing an increase of 1.9% over the same period of last year; net profit attributable to shareholders was HK$3,628.7 million, representing an increase of 119.3% over the same period of last year. If excluding the net effect of the changes in fair value of investment properties attributable to the Group and gain on a bargain purchase over the same period of last year, net profit attributable to shareholders was HK$3,424.6 million, representing an increase of 4.82 times over the same period of last year. Basic earnings per share were HK47.42 cents, representing an increase of 111.6% over the same period of last year.

Management Discussion and Analysis

Property Development Business

Affected by the stringent control policies, the trading volume of new houses in Shenzhen market saw a significant decrease. Due to the fact that several Shenzhen projects sold during the period could not be completed until the second half of the year or next year, therefore, the sales revenue booked decreased in the absence of such projects during the period. Benefited from the recovery of the real estate markets in the second- and third-tier cities, the gross profit of the main projects of the Group improved generally, and the gross profit margin of real estate development during the period increased substantially over the same period of last year.

Sales Revenue Booked: During the period, the Group recorded property sales booked of approximately 216,000 square meters (excluding the interests attributable to the Group in its three major associates), representing a decrease of 43.5% over the same period of last year, and achieved a net revenue in property sales of approximately RMB3,351.3 million (equivalent to HK$3,792.0 million) (net of value-added tax), representing a decrease of 17.9% over the same period of last year. The gross profit margin of property development and sales was 45.0%, representing an increase of approximately 8.5 percentage points over the same period of last year. During the period, the gross profit of property sales was HK$1,706.8 million, representing an increase of 1.1% over the same period of last year. The percentage of Shenzhen projects in the sales revenue booked during the period was 69.4%. During the period, the average gross profit margin for Shenzhen projects of the Group was approximately 50.7%, whereas the average gross profit margin in other cities was approximately 32.1%.

Property Sales Booked in the First Half of 2017

Property Name	Type	Sales Area *(sq.m.)*	Net Sales *(RMB million)*	Unit Price After Tax *(RMB/sq.m.)*
UpperHills	Residential/office	37,268	2,180	58,495
Noble Times	Residential/shop	241	8	33,195
Guanlan Rose Pavilion	Complex	5,773	184	31,873
Changzhou Shum Yip Huafu	Residential	1,341	11	8,203
Royal Spring Garden North	Villa	210	4	19,048
Yihu Rose Garden	Residential	990	5	5,051
Euro-view Garden	Shop	374	5	13,369
Jiangyue Bay	Residential/shop	5,147	119	23,120
Saina Bay	Residential/villa	8,420	42	4,988
Garden Hill	Villa/shop	356	3	8,427
Wanlin Lake	Residential/shop	3,429	22	6,416
Ma'anshan Shum Yip Huafu	Residential	49,136	249	5,068
Yundonghai	Villa	2,080	16	7,692
Shum Yip City	Residential	2,360	18	7,627
Splendid City	Residential	13,327	48	3,602
Rui Cheng	Residential	85,327	381	4,465
Parking lot*	Parking lot	–	56	–
Total		**215,779**	**3,351**	

Note*: 502 parking lots were sold

Management Discussion and Analysis

Contracted sales: During the period, the Group realized contracted sales area of approximately 396,000 square meters and contracted sales income of approximately RMB9 billion through bulk sale of office buildings and apartments. Though a decrease of 35.7% over the same period of last year, we were of the view that sales of main projects including Tanglang City, Shum Yip Dongling and UpperHills met the expectation, given that the real estate market in Shenzhen suffered the most stringent controlling measures during the period compared with the buoyant sales of the same period last year. Projects in the second- and third-tier cities, such as Ma'anshan Shum Yip Huafu and Rui Cheng, achieved better-than-expected sales.

Contracted Sales in the First Half of 2017

Project Name	City	Type	Sales Area *(sq.m.)*	Sales *(RMB million)*	Unit Price *(RMB/sq.m.)*
Tanglang City*	Shenzhen	Complex	97,513	5,253	53,870
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	138,361	907	6,555
UpperHills	Shenzhen	Complex	6,924	802	115,829
Shum Yip Dongling	Shenzhen	Complex	9,740	663	68,070
Rui Cheng	Changsha	Residential	54,700	327	5,978
Changzhou Shum Yip Huafu	Changzhou	Residential	22,206	232	10,448
Garden Hill	Huizhou	Residential	17,303	150	8,669
Shum Yip City	Shunde	Residential	10,629	146	13,736
Guanlan Rose Pavilion	Shenzhen	Complex	4,880	121	24,795
Jiangyue Bay	Guangzhou	Residential	3,285	113	34,399
Royal Spring Garden	Chaohu	Residential	4,864	70	14,391
Wanlin Lake	Huizhou	Residential	3,977	53	13,327
Splendid City	Jiangyan	Residential	12,411	52	4,190
Yihu Rose Garden	Chengdu	Residential	5,645	32	5,669
Nanhu Rose Bay	Wuhan	Residential	1,336	28	20,958
Euro-view Garden	Dongguan	Residential	511	20	39,139
Saina Bay	Heyuan	Residential	1,463	13	8,886
Total			**395,748**	**8,982**	

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

Management Discussion and Analysis

Project development: During the period, the Group had a new construction area of approximately 589,000 square meters, and a completed area of approximately 487,000 square meters.

New Construction Projects in the First Half of 2017

Project Name	City	Type	Total GFA *(sq.m.)*	Saleable Area *(sq.m.)*
Ma'anshan Shum Yip Huafu Phase 2.1 and 2.2	Ma'anshan	Residential	347,418	259,444
Qingshuihe Auto Park Phase 4	Shenzhen	Warehouse/ Commercial	42,000	28,000
Nanhu Rose Bay Phase 4	Wuhan	Residential	132,570	92,865
Yihu Rose Garden Phase 1.2– Longxi	Chengdu	Residential	67,221	50,124
Total			**589,209**	**430,433**

Completed Projects in the First Half of 2017

Project Name	City	Type	Total GFA *(sq.m.)*	Saleable Area *(sq.m.)*
Changzhou Shum Yip Huafu Phase 2	Changzhou	Residential	125,939	88,274
Building 5&6 of Yihu Rose Garden Phase 1.1	Chengdu	Residential	17,761	13,860
Chaohu North Phase 3	Chaohu	Residential	5,721	5,580
Chaohu South Phase 1	Chaohu	Residential	5,415	5,415
Rui Cheng Phase 2.2	Changsha	Residential	73,757	73,363
Garden Hill Phase 3.1.1A (building 2 and 3/basement)	Huizhou	Residential	79,847	37,153
Garden Hill Phase 3.1.2 (building 6-9)	Huizhou	Residential	127,593	93,239
Garden Hill Phase 3.1.1B (building 1,4 and 5)	Huizhou	Residential	50,909	50,012
Total			**486,942**	**366,896**

Management Discussion and Analysis

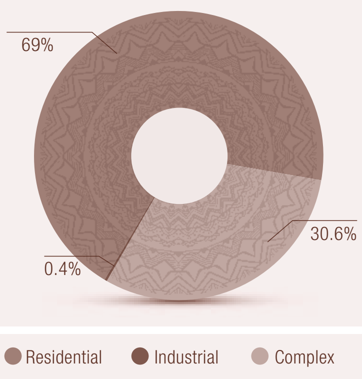
Land Reserves

As of the end of June 2017, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 6.13 million square meters (of which the Group was interested in 5.47 million square meters), and a capacity building area of 4.65 million square meters (of which the Group was interested in 4.11 million square meters), of which, the projects under construction had a total planned GFA of approximately 3.61 million square meters (of which the Group was interested in 3.29 million square meters) and a capacity building area of 2.60 million square meters (of which the Group was interested in 2.36 million square meters).

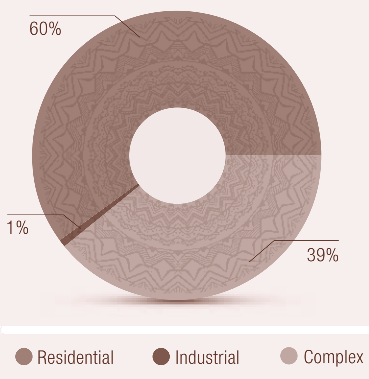
Distribution of Land Reserves

By Type – Capacity Building Area *Note 1*

As at 31 December 2016



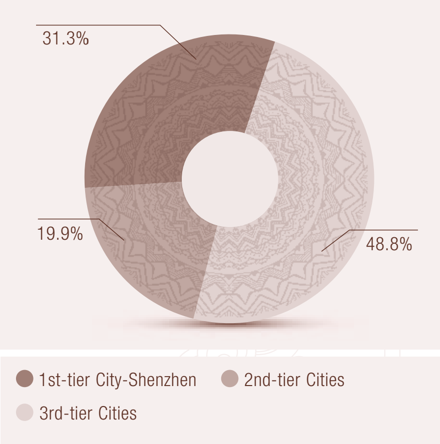
As at 30 June 2017

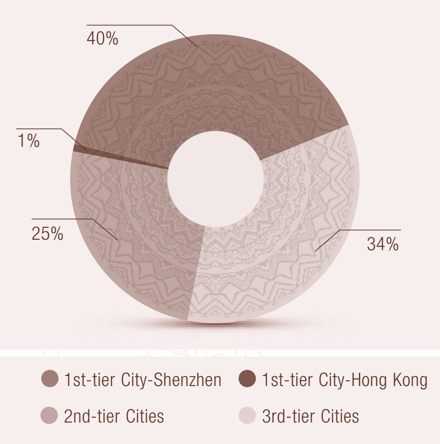


Management Discussion and Analysis

By City – Capacity Building Area Note 1

As at 31 December 2016	As at 30 June 2017





Note:

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

Management Discussion and Analysis

New Land Reserves:

On 22 June 2017, Shum King Company Limited, a joint venture owned as to 50% equity interests respectively by each of the Group and Road King Infrastructure, successfully acquired the Tuen Mun Town Lot No.520 in Hong Kong (the "Land") at a consideration of HK$3.17 billion. Located at Sham Tseng/Castle Peak Road (Tuen Mun) in Hong Kong, the Land covers an area of approximately 12,205 square meters (equivalent to 131,373 square feet) with a maximum gross floor area of 43,938 square meters (equivalent to 472,944 square feet). The Land was designated to be developed into a private residential property with a term of ownership for 50 years. The strategy of the Group is to intensify the development in Shenzhen while focusing on the development in the first- and second-tier key cities. The successful land acquisition in Hong Kong is an important step for the Company to facilitate the expansion of quality land resources in the first-tier cities and improve future sustainability.

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

During the period, capturing the opportunity of real estate pickup in the third- and fourth-tier cities, the Group completed the disinvestment of projects in the third- and fourth-tier cities broadly and achieved a satisfactory return. On 25 May 2017, the Group successfully disposed of its interests in three project companies (holding lands for low-density residential and commercial use with an undeveloped land area of 1,073 mu and an gross floor area developed but unsold of approximately 64,996 square meters) in Sanshui, Guangdong and Pengji Assets Management Company (holding lands for commercial and residential use with an undeveloped land area of 275 mu, an area under construction of 105,563 square meters, and residential and commercial properties completed but unsold of approximately 10,394 square meters in total) in Taizhou, Jiangsu through public listing-for-sale at Shenzhen United Property and Share Rights Exchange and recorded net after-tax gains of approximately HK$3.14 billion.

On 26 May 2017, the Group successfully disposed of its entire equity interests and shareholder's loan in Taizhou City Pengxiang Property Co., Ltd. (holding lands for residential use of 159 mu in Jiangyan District, Taizhou) through public listing-for-sale at a consideration of RMB364,404,888, representing a premium of approximately 59% over the listing price of RMB228,982,100, and recorded net after-tax gains of approximately HK$190 million.

Through the above-mentioned transactions, the proportion of land reserves of the Group in the third- and fourth-tier cities decreased from approximately 49% to 34%, which further optimized its structure of land reserves and created satisfactory returns for shareholders.

Management Discussion and Analysis

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

The Group, together with Shum Yip Group, the parent company, owns the qualification as a general coordinator for certain reformation projects in urban areas primarily including Bagualing, Chegongmiao, Xin'an and Nantou Ancient Town, with an aggregate area of nearly 10 square kilometers. During the period, each reformation project has progressed as scheduled. The planning schemes for Chegongmiao and Bagualing have been recognized and approved by the government, thus paving a solid foundation for the Group to compete for more resources for urban redevelopment. Going forward, the Group will continue to adhere to its strategy to intensify the development in Shenzhen, speed up the expansion of quality land resources in Shenzhen, and steadily propel its business expansion and quality land reserves in other key cities such as Hong Kong, Guangzhou and Nanjing so as to improve asset quality and create good returns for shareholders.

Property Investment

As at 30 June 2017, the Group's investment properties cover a total area of over 1.10 million square meters, the majority of which are located in Shenzhen. During the period, the Group recorded rental income of approximately HK$425.8 million, representing an increase of approximately 10.2% over the same period of last year, while the gross profit margin of its property investment business was approximately 84.3%, representing a decrease of 2.9 percentage points over the same period of last year. The Group recorded a revaluation gain in its investment property portfolio of HK$272.9 million for the period. With the completion of the projects including UpperHills and Taifu Square in the future, the Group's income from, and the scale of, investment properties, will increase significantly.

Property Management

The Group holds six property management companies with first class property management qualifications at the national level. The property management team is committed to improving services, supporting the development of real estate business, and helping to enhance the corporate brand. As of the end of the period, the total area of properties under the Group's management was approximately 40 million square meters, covering a variety of property types such as government offices, office buildings, residential estates, villas, and science and technology parks, which are mainly located in the Pearl River and Yangtze River deltas as well as the central region. During the period, the property management business contributed a turnover of approximately HK$734.5 million to the Group, flat with the same period of last year.

Management Discussion and Analysis

Hotel Operations

The Group has three hotels in operation and three under construction. Those in operation are Suzhou Marriott Hotel (with 293 guest rooms), Chaohu Shumyip Bantang Hot Spring Hotel (with 20 spring villas) and Holiday Inn Resort Chaohu Hot Spring (with 203 guest rooms). Those under construction are Mandarin Oriental Shenzhen (with 190 guest rooms planned), UpperHills Boutique Hotel (with 90 guest rooms planned) and Tanglang City project hotel (with 200 guest rooms planned), which is co-developed with Shenzhen Metro Group.

During the period, the three hotels in operation recorded a turnover (included under other operating segment) of approximately HK$82.6 million, representing a decrease of 2.2% over the same period of last year.

Manufacturing Business

The Group's manufacturing business mainly represents the LCD manufacturing and metal materials processing and other businesses which have been held by the companies under the Group over the years. During the period, the manufacturing business recorded operating income of approximately HK$168 million, representing an increase of 16.2% over the same period of last year.

Performance of Joint Ventures

During the period, the performance of Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) was flat with the same period of last year. The principal activity of this company is to assist local government in primary land development and the local government did not make any arrangement to launch such lands during the period. In addition, Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group), a project company responsible for the development of Shenzhen's Tanglang City Project with Shenzhen Metro Group, incurred a loss of HK$ 10.0 million to the Group because the Tanglang City Project is expected to be completed by the end of 2017 and no sales was recognised in the period. Shenzhen Tianan Cyber Park (Group) Co., Ltd. made a net profit contribution of HK$20.3 million to the Group, representing a decrease of 68.6% over the same period of last year.

Performance of Associates

During the period, the associates invested by the Group performed as expected. Of which, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK$77.8 million to the Group, representing an increase of 30.3% over the same period of last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$145.2 million to the Group, compared with a net profit contribution of HK$15.5 million for the same period of last year.

Management Discussion and Analysis

Propelling Capital Operation through Investment in Hengda Real Estate

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

The core terms of the Investment Agreement (as amended and supplemented by the supplemental investment agreements dated 31 May 2017 and 28 June 2017) mainly include: (i) valuation and profit distribution undertaking: before the subscription, the valuation of Hengda Real Estate was RMB198 billion (estimated PE in 2017 of approximately 8.1 times). Kailong Real Estate and Hengda Real Estate have undertaken that the net profit of Hengda Real Estate for the years of 2017, 2018 and 2019 shall not be less than RMB24.3 billion, RMB30.8 billion and RMB33.7 billion, respectively. During the performance undertaking period, Hengda Real Estate will distribute at least 68% of its net profit to its shareholders as cash dividends until the signing of the reorganization agreement; (ii) exit rights: if the above-mentioned proposed reorganization is not completed by 31 January 2020, Ma'anshan Maowen will have the right to demand Kailong Real Estate to either buy back the entire equity interests in Hengda Real Estate held by it at its original investment cost (Ma'anshan Maowen will have the right to request Mr. Hui Ka Yan, a director and controlling shareholder of China Evergrande, to buy back such equity interest if Kailong Real Estate chooses not to buy back) or transfer to it shares in Hengda Real Estate representing 50% of the equity interests (excluding any additional equity interests acquired by Ma'anshan Maowen after the date of the investment agreement) in Hengda Real Estate held by Ma'anshan Maowen at nil consideration as compensation; and (iii) lock-up undertaking: if the above-mentioned proposed reorganization is completed, Ma'anshan Maowen will hold shares issued by an A-share listed company ("Listco") for the acquisition of the equity interests in Hengda Real Estate. Ma'anshan Maowen is prohibited from transferring the said shares of Listco within the lock-up period stipulated by the China Securities Regulation Commission, and Kailong Real Estate has also undertaken that it will not, until the first anniversary of the expiry date of the lock-up period of the strategic investor, transfer the shares issued by Listco for the acquisition of the equity interests in Hengda Real Estate.

Management Discussion and Analysis

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

Financing

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

As at 30 June 2017, the Group's total bank and other borrowings amounted to HK$20,178.7 million (31 December 2016: HK$19,757.2 million), of which HK$15,561.7 million were floating-rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK$14,516.4 million, representing approximately 71.9% of the total borrowings, and short-term loans were HK$5,662.3 million, representing approximately 28.1% of the total borrowings. Borrowings from Hong Kong and overseas amounted to HK$12,814.8 million, representing 63.5% of the total borrowings, and the remaining were borrowings from mainland China, representing 36.5% of the total borrowings. During the period, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.3% per annum.

As at 30 June 2017, the Group's cash and bank balance (including restricted cash) was HK$10,096.0 million (31 December 2016: HK$12,063.7 million), of which approximately 89.9% and 10.1% were denominated in Renminbi and other currencies (mainly in US$ and HK$) respectively.

The Group's assets are mainly denominated in Renminbi. 36.5% of the bank and other borrowings are denominated in Renminbi, while 63.5% are denominated in HK$ and US$. HK$ 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 will be mainly reflected in the depreciation of the asset and earnings denominated in Renminbi against HK$, the reporting currency. The Group will monitor foreign exchange risk and adopt various ways to reduce the percentage of foreign currency loans and increase the percentage of Renminbi debts. It will also consider applying financial instruments to hedge the foreign exchange risk in due time and in a prudent manner.

As at 30 June 2017, the Group had net assets (excluding non-controlling interests) of HK$36,485.5 million (31 December 2016: HK$32,810.8 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 27.6% and the net gearing ratio with the liabilities including shareholders' loan from the parent company and all other interest-bearing liabilities was 39.2%. The gross gearing ratio (being the ratio of total liabilities over total assets) was 60.3%.

Management Discussion and Analysis

Financial Position

HK$ million	**As at 30 June 2017**	As at 31 December 2016
Bank and other borrowings	**20,178.7**	19,757.2
Long-term borrowings	**14,516.4**	14,468.8
Short-term borrowings	**5,662.3**	5,288.5
Floating-rate loans	**15,561.7**	15,485.4
Cash (including restricted cash)	**10,096.0**	12,063.7
Net gearing ratio with the liabilities including bank and other borrowings only	**27.6%**	23.4%
Net gearing ratio with the liabilities including all interest-bearing liabilities	**39.2%**	38.9%

Pledge of Assets and Contingent Liabilities Provision Position

As at 30 June 2017, the Group had total loans of HK$591.3 million (31 December 2016: HK$638.2 million) that were pledged with assets (for details, see note 20 to the financial report).

As at 30 June 2017, the Group had provided guarantees to a maximum of HK$7,093.9 million (31 December 2016: HK$7,869.3 million) to banks for housing loans extended by the banks to the purchasers of the Group's properties (for details, see note 26 to the financial report).

As at the date of this report, the legal proceedings involving Wuhan Shum Yip Terra Property Development Company Limited, the Company's 75.05% indirectly owned subsidiary, is still at the stage of court proceedings. As disclosed in the Company's 2016 annual report, provision in respect of this legal proceeding had been made in 2016 based on management's best estimate, and management consider no further changes in the amount of provision is required up to the date of this report.

Management Discussion and Analysis

Employees and Remuneration Policy

As at 30 June 2017, the Group employed 18,293 employees (2016: 17,729) of whom 41 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 2017 (excluding remuneration of the Directors) amounted to approximately HK$617.8 million (2016: HK$520.7 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.

Report on Review of Interim Financial Report

Review report to the board of directors of Shenzhen Investment Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 24 to 72 which comprises the consolidated statement of financial position of Shenzhen Investment Limited (the "Company") as of 30 June 2017 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Report on Review of Interim Financial Report

Scope of review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 August 2017

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	**$'000**	$'000
Revenue	5	**5,453,811**	6,382,666
Cost of sales		**(3,256,808)**	(4,225,765)
Gross profit		**2,197,003**	2,156,901
Other income and gains	5	**91,065**	616,766
Gain on disposal of subsidiaries	6	**3,676,757**	–
(Decrease)/increase in fair value of equity investments at fair value through profit or loss, net		**(314)**	72
Increase in fair value of investment properties		**272,928**	741,479
Selling and distribution expenses		**(100,196)**	(156,241)
Administrative expenses		**(346,921)**	(407,426)
Other operating expenses		**(74,042)**	(116,362)
Finance costs	7	**(211,436)**	(313,566)
Share of results of joint ventures and associates		**(56,251)**	291,658
Profit before taxation	8	**5,448,593**	2,813,281
Income tax expense	9	**(1,740,453)**	(1,120,729)
Profit for the period		**3,708,140**	1,692,552
Attributable to:			
Equity shareholders of the Company		**3,628,682**	1,654,741
Non-controlling interests		**79,458**	37,811
		3,708,140	1,692,552
Earnings per share	10		
Basic		**HK47.42 cents**	HK22.41 cents
Diluted		**HK47.41 cents**	HK22.40 cents

The notes on pages 31 to 72 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 11.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Profit for the period	**3,708,140**	1,692,552
Other comprehensive income for the period:		
Items that will not be reclassified subsequently to profit or loss:		
– Surplus on revaluation of investment property transferred from property, plant and equipment:		
– Changes in fair value	**7,064**	–
– Income tax effect	**(1,765)**	–
	5,299	–
Items that may be reclassified subsequently to profit or loss:		
– Available-for-sale investments:		
– Changes in fair value	**4,883**	(4,255)
– Income tax effect	**(1,221)**	1,064
	3,662	(3,191)
– Share of other comprehensive income of joint ventures and associates	**32,951**	(65,375)
– Exchange fluctuation reserve released upon disposal of subsidiaries	**(93,486)**	–
– Exchange differences on translation of foreign operations	**1,312,499**	(973,170)
	1,255,626	(1,041,736)
Other comprehensive income for the period, net of tax	**1,260,925**	(1,041,736)
Total comprehensive income for the period	**4,969,065**	650,816
Attributable to:		
Equity shareholders of the Company	**4,775,072**	664,643
Non-controlling interests	**193,993**	(13,827)
Total comprehensive income for the period	**4,969,065**	650,816

The notes on pages 31 to 72 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2017
(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 (unaudited) $'000	At 31 December 2016 (audited) $'000
Non-current assets			
Property, plant and equipment	12	**3,980,431**	3,844,311
Prepaid land lease payments		**37,273**	36,083
Goodwill		**322,378**	322,240
Investment properties	13	**24,380,082**	22,807,211
Interests in associates	15	**3,847,435**	3,994,821
Interests in joint ventures	16	**3,270,316**	3,300,931
Other financial assets	17	**6,456,753**	112,985
Other long term assets		**3,351,621**	3,188,483
Deferred tax assets		**2,120,950**	1,954,441
		47,767,239	39,561,506
Current assets			
Trading biological assets		**5,794**	8,136
Completed properties held for sale		**5,541,391**	7,514,657
Properties under development	14	**34,808,521**	35,292,229
Inventories		**110,825**	93,354
Trade receivables	18	**305,775**	322,506
Prepayments, deposits and other receivables		**1,743,483**	1,684,928
Equity investments at fair value through profit or loss		**4,252**	4,566
Restricted cash	19	**2,505,623**	2,204,157
Cash and cash equivalents	19	**7,590,351**	9,859,526
		52,616,015	56,984,059

Consolidated Statement of Financial Position

At 30 June 2017
(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 (unaudited) $'000	At 31 December 2016 (audited) $'000
Current liabilities			
Interest-bearing bank loans and other borrowings	20	**5,662,313**	5,288,454
Trade payables	21	**1,256,909**	1,116,432
Other payables and accruals	22	**15,956,610**	17,023,915
Due to the immediate holding company	28(d)(i)	**2,044,400**	1,270,755
Due to the ultimate holding company	28(d)(ii)	**2,852,510**	2,850,880
Tax payable		**8,381,677**	8,755,178
		36,154,419	36,305,614
Net current assets		**16,461,596**	20,678,445
Total assets less current liabilities		**64,228,835**	60,239,951
Non-current liabilities			
Interest-bearing bank loans and other borrowings	20	**14,516,409**	14,468,791
Deferred income		**26,713**	27,375
Due to the immediate holding company	28(d)(i)	**767,655**	752,362
Deferred tax liabilities		**9,075,903**	8,770,489
		24,386,680	24,019,017
NET ASSETS		**39,842,155**	36,220,934
CAPITAL AND RESERVES	24		
Share capital		**18,350,954**	18,281,191
Reserves		**18,134,552**	14,529,622
Total equity attributable to equity shareholders of the Company		**36,485,506**	32,810,813
Non-controlling interests		**3,356,649**	3,410,121
TOTAL EQUITY		**39,842,155**	36,220,934

The notes on pages 31 to 72 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company											
	Note	Share capital $'000	Other reserve $'000	Share option reserve $'000	Capital reserve $'000	Asset revaluation reserve $'000	Available-for-sale investment revaluation reserve $'000	Statutory reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2016		17,478,481	(208,140)	57,504	59,019	216,142	19,575	1,837,976	1,515,524	12,349,784	33,325,865	2,243,201	35,569,066
Changes in equity for the six months ended 30 June 2016													
Profit for the period		–	–	–	–	–	–	–	–	1,654,741	1,654,741	37,811	1,692,552
Other comprehensive income		–	–	–	–	–	(3,191)	–	(986,907)	–	(990,098)	(51,638)	(1,041,736)
Total comprehensive income		–	–	–	–	–	(3,191)	–	(986,907)	1,654,741	664,643	(13,827)	650,816
Final 2015 dividend declared	11	–	–	–	–	–	–	–	–	(959,922)	(959,922)	–	(959,922)
Equity-settled share option expense		–	–	7,891	–	–	–	–	–	–	7,891	–	7,891
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	146,867	146,867
Dividends to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(3,923)	(3,923)
Share of reserves of associates		–	–	–	107	2,900	–	–	–	–	3,007	–	3,007
Balance at 30 June 2016		17,478,481	(208,140)	65,395	59,126	219,042	16,384	1,837,976	528,617	13,044,603	33,041,484	2,372,318	35,413,802

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company											
	Note	Share capital $'000	Other reserve $'000	Share option reserve $'000	Capital reserve $'000	Asset revaluation reserve $'000	Available-for-sale investment revaluation reserve $'000	Statutory reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2017		18,281,191	(208,140)	62,247	59,019	216,142	11,486	2,104,245	(1,476,426)	13,761,049	32,810,813	3,410,121	36,220,934
Changes in equity for the six months ended 30 June 2017													
Profit for the period		–	–	–	–	–	–	–	–	3,628,682	3,628,682	79,458	3,708,140
Other comprehensive income		–	–	–	–	3,709	3,662	–	1,139,019	–	1,146,390	114,535	1,260,925
Total comprehensive income		–	–	–	–	3,709	3,662	–	1,139,019	3,628,682	4,775,072	193,993	4,969,065
Final 2016 dividend declared	11	–	–	–	–	–	–	–	–	(1,150,449)	(1,150,449)	–	(1,150,449)
Exercise of share options		69,763	–	(10,294)	–	–	–	–	–	–	59,469	–	59,469
Lapsed and surrender of share options		–	–	(594)	–	–	–	–	–	594	–	–	–
Equity-settled share option expense	23	–	–	3,350	–	–	–	–	–	–	3,350	–	3,350
Acquisition of non-controlling interests		–	(12,749)	–	–	–	–	–	–	–	(12,749)	(9,805)	(22,554)
Dividends to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(237,660)	(237,660)
Balance at 30 June 2017		18,350,954	(220,889)	54,709	59,019	219,851	15,148	2,104,245	(337,407)	16,239,876	36,485,506	3,356,649	39,842,155

The notes on pages 31 to 72 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	**$'000**	$'000
Operating activities			
Cash generated from operations		**381,529**	6,990,344
Tax paid		**(2,395,497)**	(2,447,728)
Net cash (used in)/generated from operating activities		**(2,013,968)**	4,542,616
Investing activities			
Payment for the purchase of property, plant and equipment		**(54,542)**	(110,955)
Acquisition of a subsidiary		**–**	(2,158,664)
Net cash received from disposal of subsidiaries		**6,595,393**	–
Purchases of other financial assets	17	**(6,337,100)**	–
Other cash flows arising from investing activities		**(13,856)**	(89,584)
Net cash generated from/(used in) investing activities		**189,895**	(2,359,203)
Financing activities			
Proceeds from bank and other borrowings		**3,544,848**	4,348,489
Repayments of bank and other borrowings		**(3,332,460)**	(4,603,350)
Dividends paid to non-controlling shareholders		**(245,425)**	(3,923)
Other cash flows arising from financing activities		**(510,802)**	(1,462,123)
Net cash used in financing activities		**(543,839)**	(1,720,907)
Net (decrease)/increase in cash and cash equivalents		**(2,367,912)**	462,506
Cash and cash equivalents at 1 January		**9,859,526**	9,708,046
Effect of changes in foreign exchange rate		**98,737**	88,441
Cash and cash equivalents at 30 June		**7,590,351**	10,258,993

The notes on pages 31 to 72 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

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

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 30 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (Continued)

The interim financial report is unaudited, but has 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 HKICPA. KPMG's independent review report to the Board of Directors is included on pages 22 to 23.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report 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 2016 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has 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 interim financial report.

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

4. Segment reporting

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

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

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

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

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Segment reporting (Continued)

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

For the six months ended 30 June 2017	Property development $'000	Property investment $'000	Property management $'000	Manufacturing $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	3,791,967	425,790	734,540	168,196	333,318	5,453,811
Intersegment sales	-	12,758	9,586	-	45,009	67,353
	3,791,967	438,548	744,126	168,196	378,327	5,521,164
Reconciliation						
Elimination of intersegment sales						(67,353)
Revenue						5,453,811
Segment results before increase in fair value of investment properties	5,053,609	317,433	39,954	5,629	(25,760)	5,390,865
Increase in fair value of investment properties	-	272,928	-	-	-	272,928
Segment results after increase in fair value of investment properties	5,053,609	590,361	39,954	5,629	(25,760)	5,663,793
Reconciliation						
Elimination of intersegment results						(7,457)
Interest income						77,901
Decrease in fair value of equity investments at fair value through profit or loss, net						(314)
Corporate and other unallocated expenses						(73,894)
Finance costs						(211,436)
Profit before taxation						5,448,593
As at 30 June 2017						
Segment assets:	49,360,909	27,163,934	393,855	144,497	4,132,127	81,195,322
Reconciliation						
Corporate and other unallocated assets						19,187,932
Total assets						100,383,254
Segment liabilities:	13,643,108	2,562,037	754,777	96,536	3,995,759	21,052,217
Reconciliation						
Corporate and other unallocated liabilities						39,488,882
Total liabilities						60,541,099

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4. Segment reporting (Continued)

For the six months ended 30 June 2016	Property development $'000	Property investment $'000	Property management $'000	Manufacturing $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	4,621,049	386,246	734,394	144,782	496,195	6,382,666
Intersegment sales	–	17,342	17,686	–	39,788	74,816
	4,621,049	403,588	752,080	144,782	535,983	6,457,482
Reconciliation						
Elimination of intersegment sales						(74,816)
Revenue						6,382,666
Segment results before increase in fair value of investment properties	1,834,285	527,625	42,994	7,884	(68,153)	2,344,635
Increase in fair value of investment properties	–	741,479	–	–	–	741,479
Segment results after increase in fair value of investment properties	1,834,285	1,269,104	42,994	7,884	(68,153)	3,086,114
Reconciliation						
Elimination of intersegment results						(2,165)
Interest income						77,267
Increase in fair value of equity investments at fair value through profit or loss, net						72
Corporate and other unallocated expenses						(34,441)
Finance costs						(313,566)
Profit before taxation						2,813,281
As at 31 December 2016						
Segment assets:	52,519,669	25,025,456	275,089	157,525	4,050,420	82,028,159
Reconciliation						
Corporate and other unallocated assets						14,517,406
Total assets						96,545,565
Segment liabilities:	15,444,021	3,119,732	717,452	95,614	3,563,389	22,940,208
Reconciliation						
Corporate and other unallocated liabilities						37,384,423
Total liabilities						60,324,631

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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

5. Revenue, other income and gains

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Revenue		
Sale of properties	**3,791,967**	4,621,049
Management fee income	**734,540**	734,394
Rental income from investment properties	**425,790**	386,246
Sale of commercial and industrial goods	**168,196**	144,782
Others	**333,318**	496,195
	5,453,811	6,382,666
Other income and gains		
Interest income	**77,901**	77,267
Gain on disposal of investment properties	**–**	1,628
Gain on a bargain purchase	**–**	526,249
Others	**13,164**	11,622
	91,065	616,766

6. Gain on disposal of subsidiaries

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

7. Finance costs

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Interest on:		
Bank loans	**309,310**	396,620
Other borrowings	**123,580**	116,470
Loans from the ultimate holding company	**55,121**	131,876
Loans from the immediate holding company	**26,676**	11,736
Loans from a fellow subsidiary	**995**	–
Loans from non-controlling shareholders	**375**	262
Total interest expense on financial liabilities not stated at fair value through profit or loss	**516,057**	656,964
Less: Interest capitalised into properties under development	**(304,621)**	(343,398)
	211,436	313,566

8. Profit before taxation

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

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Amortisation of prepaid land lease payments	**568**	452
Depreciation	**101,708**	94,761
(Reversal for)/impairment loss of trade receivables	**(568)**	2,716
Write-down of properties under development	**–**	65,097

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9. Income tax expense

The provision for Hong Kong Profits Tax for the six months ended 30 June 2017 is calculated at 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profits for the interim period ("Period"). No provision for Hong Kong Profits Tax was made as the Group has no assessable profits arising in or derived from Hong Kong for the Period (six months ended 30 June 2016: 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	
	2017	2016
	$'000	$'000
Current tax:		
Mainland China CIT	**1,072,891**	505,749
LAT in Mainland China	**678,805**	519,293
Deferred tax:		
Mainland China CIT	**(135,283)**	116,625
Withholding tax on dividend	**186,796**	37,161
LAT in Mainland China	**(62,756)**	(58,099)
Total tax charge for the period	**1,740,453**	1,120,729

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10. Earnings per share

(a) Basis earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of $3,628,682,000 (six months ended 30 June 2016: $1,654,741,000) and the weighted average of 7,651,815,734 ordinary shares (2016: 7,384,016,988 shares) in issue during the Period.

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $3,628,682,000 (six months ended 30 June 2016: $1,654,741,000) and the weighted average of 7,653,107,575 ordinary shares (2016: 7,387,229,698 shares).

11. Dividends

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Dividends recognised as distribution during the Period:		
Final dividend declared for 2016 – HK10.00 cents per share (2016: declared for 2015 – HK13.00 cents per share) (i)		
Scrip shares	**601,814**	751,256
Cash	**165,152**	208,666
Special dividend declared for 2016 – HK5.00 cents per share (2015: nil per share) (i)		
Scrip shares	**300,907**	–
Cash	**82,576**	–
	1,150,449	959,922
Dividend declared in respect of current period:		
Proposed interim dividend for 2017 – HK7.00 cents per share (2016: HK7.00 cents per share) (ii)	**555,244**	534,884

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11. Dividends (Continued)

Notes:

(i) The declared final dividend of HK10.00 cents per share and special dividend of HK5.00 cents per share for the year ended 31 December 2016 were partly paid in cash and partly settled in the form of scrip shares on 18 August 2017. The declared final dividend of HK13.00 cents per share for the year ended 31 December 2015 was partly paid in cash and partly settled in the form of scrip shares on 11 August 2016.

(ii) On 30 August 2017, the board of directors has declared an interim dividend of HK7.00 cents per share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK7.00 cents per share). The interim dividend will be paid in cash but shareholders will be given the option of receiving such dividend 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.

The amount of the interim dividend for 2017 was calculated on the basis of 7,932,053,558 shares in issue as at 30 August 2017.

12. Property, plant and equipment

During the six month ended 30 June 2017, the Group acquired items of property, plant and equipment with a cost of $54,542,000 (six months ended 30 June 2016: $112,666,000). Items of property, plant and equipment with a net book value of $1,805,000 were disposed of during the six months ended 30 June 2017(six months ended 30 June 2016: $2,048,000) resulting in a loss on disposal of $379,891 (six months ended 30 June 2016: gain on disposal of $2,329,000).

As at 30 June 2017, the Group has not yet obtained the ownership certificates in respect of the buildings with a net carrying value of $372,171,000 (31 December 2016: $361,092,000).

As at 30 June 2017, certain of the Group's land and buildings in Mainland China with a net carrying amount of approximately $687,944,000 (31 December 2016: $678,753,000) were pledged to secure bank loans granted to the Group (note 20(a)(i)).

13. Investment properties

The Group's investment properties are situated in Mainland China and are held under medium term leases. The directors of the Company have determined that the investment properties consist of two classes of assets, i.e., commercial and industrial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued at 30 June 2017 based on valuation performed by Asset Appraisal Limited, an independent firm of professionally qualified property valuers who have among their staff Fellow of the Hong Kong Institute of Surveyors with recent experience in location and category of property being valued, at approximately $24,380,082,000 (31 December 2016: $22,807,211,000).

The following table presents the investment properties which are measured at fair value at the end of the reporting period across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement ("HKFRS 13"). The levels are defined in note 25(i).

None of the Group's investment properties measured at fair value are categorised as Level 1 and Level 2 input. The Group's investment properties which are at Level 3 valuation are analysed as below:

	Fair value measurement	
	At 30 June 2017 $'000	At 31 December 2016 $'000
Recurring fair value measurement for:		
Commercial properties	**20,319,697**	18,893,412
Industrial properties	**4,060,385**	3,913,799
	24,380,082	22,807,211

The Group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Investment properties (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range
Commercial properties	Comparison method	(Discount)/premium on quality of the buildings	(50%) – 55% (2016: (50%) – 25%)
Industrial properties	Comparison method	Discount on quality of the buildings	(58%) – (10%) (2016: (50%) – (5%))

The fair value of investment properties located in the Mainland China is determined using comparison method by reference to recent sales price of comparable properties on a price per square meter basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

Certificates of ownership in respect of certain investment properties of the Group with a net carrying amount of approximately $1,440,218,000 as at 30 June 2017 (31 December 2016: $1,397,344,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

As at 30 June 2017, the Group's investment properties with a net carrying value of approximately $803,242,000 (31 December 2016: $777,095,000) was pledged to secure bank loans granted to the Group (note 20(a)(iii)).

14. Properties under development

	At 30 June 2017 $'000	At 31 December 2016 $'000
Land in Mainland China held under medium term leases	**27,252,610**	27,594,315
Development expenditure, at cost	**7,704,658**	8,350,255
	34,957,268	35,944,570
Less: Write-down of properties under development	**(148,747)**	(652,341)
	34,808,521	35,292,229

As at 30 June 2017, none of the Group's properties under development (31 December 2016: $95,858,000) were pledged to secure bank loans granted to the Group (note 20(a)(ii)).

As at 30 June 2017, the application for certificates of land use rights in Mainland China for land held under medium term leases with a net carrying amount of $2,780,400,000 (31 December 2015: $3,531,535,000) was still in progress.

15. Interests in associates

	At 30 June 2017 HK$'000	At 31 December 2016 HK$'000
Unlisted:		
Share of net assets	**121,638**	123,469
Listed in Hong Kong:		
Share of net assets	**4,450,220**	4,595,775
Goodwill on acquisition	**91,577**	91,577
Provision for impairment*	**(816,000)**	(816,000)
	3,725,797	3,871,352
	3,847,435	3,994,821

* The provision for impairment is related to the Company's interest in Coastal Greenland Limited ("Coastal Greenland"). In respect of the Group's interest in Road King Infrastructure Ltd. ("Road King"), the board of directors consider there is no impairment after considering the fact that there was no significant or prolonged decline in its fair value below its cost.

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15. Interests in associates (Continued)

Particulars of the Group's material associates are as follows:

Name	Business structure	Place of incorporation/ registration and business	Particulars of issued and paid up capital	Percentage of ownership interest attributable to the Group		Principal activities
				30 June 2017	31 December 2016	
Coastal Greenland*	Corporate	Bermuda/ Mainland China	4,185,874,285 ordinary shares of $0.1 each	**15.08**	15.08	Property development and investment
Road King**	Corporate	Bermuda/ Mainland China	745,536,566 ordinary shares of $0.1 each	**27.14**	27.34	Development, operation and management of toll roads and property development and investment

None of the associates are audited by KPMG, Hong Kong or another member firm of the KPMG global network.

* Coastal Greenland is a limited liability Company incorporated in Bermuda and its ordinary shares with a nominal value of $0.10 each are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The principal location of Coastal Greenland's business is Mainland China. Although the Group holds less than 20% of the ownership interest and voting control of Coastal Greenland, the Group considers that it has the ability to exercise significant influence over Coastal Greenland through both its shareholding and its nominated directors' participation on Coastal Greenland's board of directors.

** Road King is a limited liability Company incorporated in Bermuda and its ordinary shares with a nominal value of $0.10 each are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The principal location of Road King's business is Mainland China.

As at 30 June 2017, the fair value of interests in associates whose shares are listed in Hong Kong was $2,107,643,000 (31 December 2016: $1,448,183,000).

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16. Interests in joint ventures

	At 30 June 2017 $'000	At 31 December 2016 $'000
Share of net assets	**3,078,870**	3,127,130
Goodwill on acquisition	**6,116**	6,116
Loans to joint ventures (note)	**185,330**	167,685
	3,270,316	3,300,931

Note: The loans to joint ventures included in interests in joint ventures are unsecured, interest-free and are repayable after 12 months from the end of the reporting period.

Particulars of the Group's material joint ventures are as follows:

Name	Nominal value of registered capital	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenzhen Langtong Property Development Company Limited ("Langtong")	RMB100,000,000	PRC/ Mainland China	50	50	50	Property development and property investment
Shenzhen Tianan Cyber Park (Group) Company Limited* ("Tianan")	US$62,000,000	PRC/ Mainland China	37.53	50	37.53	Property investment and development
Taizhou Shum Yip Investment Development Limited ("Taizhou Shum Yip")	RMB100,000,000	PRC/ Mainland China	51	50	51	Provision of land development service

* The 50% ownership interest in Tianan is held by Shum Yip Terra (Holdings) Company Limited ("Shum Yip Terra"), a 75.05% non-wholly owned subsidiary of the Group. Therefore, the Group's effective ownership interest and profit sharing is 37.53%.

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17. Other financial assets

On 31 May 2017 and 28 June 2017, the Group entered into investment agreements ("Investment Agreements") with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate"), Hengda Real Estate Group Company Limited ("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.

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

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

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

17. Other financial assets (Continued)

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, RMB30.8 billion and RMB33.7 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 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.

The balance of other financial assets mainly included financial assets arising from the Investment Agreements.

18. Trade receivables

	At 30 June 2017 $'000	At 31 December 2016 $'000
Trade receivables	341,690	357,498
Less: allowance for doubtful debts	(35,915)	(34,992)
	305,775	322,506

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

An 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 2017 $'000	At 31 December 2016 $'000
Within one year	295,499	310,256
One to two years	10,276	12,250
	305,775	322,506

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19. Cash and cash equivalents and restricted cash

	At 30 June 2017 $'000	At 31 December 2016 $'000
Cash and bank balances	**8,576,423**	10,290,520
Time deposits	**1,519,551**	1,773,163
	10,095,974	12,063,683
Less: Restricted cash	**(2,505,623)**	(2,204,157)
Cash and cash equivalents	**7,590,351**	9,859,526

20. Interest-bearing bank loans and other borrowings

	At 30 June 2017		At 31 December 2016	
	Effective/ contractual interest rate (%)	**$'000**	Effective/ contractual interest rate (%)	$'000
Current				
Bank loans – secured	**4.83**	**18,707**	4.83 – 5.23	73,489
Bank loans – unsecured	**2.60 – 5.84**	**5,643,606**	2.44 – 6.18	5,214,965
		5,662,313		5,288,454
Non-current				
Bank loans – secured	**4.83 – 4.90**	**572,610**	4.83 – 4.90	564,736
Bank loans – unsecured	**3.02 – 4.99**	**11,063,299**	2.89 – 5.13	11,109,305
Other borrowings – unsecured (c)	**6.80**	**2,880,500**	6.80	2,794,750
		14,516,409		14,468,791
		20,178,722		19,757,245

20. Interest-bearing bank loans and other borrowings (Continued)

	At 30 June 2017 $'000	At 31 December 2016 $'000
Analysed into:		
Bank loans repayable:		
Within one year	**5,662,313**	5,288,454
In the second year	**4,360,857**	4,832,822
From third to fifth years	**7,171,354**	6,673,534
Over five years	**103,698**	167,685
	17,298,222	16,962,495
Other borrowings:		
From third to fifth years	**2,880,500**	2,794,750
	20,178,722	19,757,245

(a) Bank loans amounting to $591,317,000 (31 December 2016: $638,225,000) were secured by certain of the Group's assets as below:

(i) land and buildings in Mainland China with a carrying amount value of approximately $687,944,000 (31 December 2016: $678,753,000) (note 12);

(ii) properties under development with a net carrying amount of nil (31 December 2016: $95,858,000) (note 14);

(iii) investment properties with a net carrying amount of approximately $803,242,000 (31 December 2016: $777,095,000) (note 13).

In addition, Shum Yip Group, the ultimate holding Company, has guaranteed certain of the Group's bank loans of $3,772,418,000 as at 30 June 2017 (31 December 2016: $3,771,012,000) (note 28(b)).

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20. Interest-bearing bank loans and other borrowings (Continued)

(b) Except for the bank loans equivalent to approximately $6,933,502,000 (31 December 2016: $6,981,840,000) and $5,881,300,000 (31 December 2016: $5,964,000,000), which are denominated respectively in United States dollars and Hong Kong dollars, all other borrowings of the Group are in RMB.

(c) A subsidiary in Mainland China has entered into a fund arrangement with a financial institution (the "Trustee"), pursuant to which the Trustee has raised trust fund amounting to RMB2,500,000,000 (equivalent to $2,880,500,000) (2016: RMB2,500,000,000 (equivalent to $2,794,750,000)) and provided the fund to the subsidiary for financing a property development project of the subsidiary. The fund bears a fixed interest rate at 6.80% per annum. The fund will expire in May 2021 and is guaranteed by Shum Yip Group.

21. 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 2017 $'000	At 31 December 2016 $'000
Within one year	**683,290**	570,813
One to two years	**261,583**	235,977
Two to three years	**233,148**	226,082
Over three years	**78,888**	83,560
	1,256,909	1,116,432

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22. Other payables and accruals

As at 30 June 2017, the Group's balance of other payables and accruals included a provision of $624,968,000 in relation to the litigation of Wuhan Shum Yip Terra Property Development Company Limited ("Wuhan Terra").

On 12 September 2014, Shum Yip Terra, a 75.05% owned subsidiary of the Company, and its wholly-owned subsidiary, Wuhan Terra, received a notification for the appointment of defender/ application for legal aid during the prosecution review phase from The People's Procuratorate of Jianli County of Hubei Province (the "People's Procuratorate"), informing Shum Yip Terra and Wuhan Terra that materials in respect of the suspected corporate offence of bribery on both of them have been transferred to the Public Prosecution Bureau of the Procuratorate for prosecution review.

The People's Procuratorate considers that there were violations of the relevant regulations in the procedures in respect of a land transaction involved by Wuhan Terra which has caused a loss of state-owned land income, and the loss in the amount of approximately RMB316 million should be recovered from Shum Yip Terra. The People's Procuratorate has frozen certain bank accounts of Wuhan Terra and Shum Yip Terra. Further details of the matter are set out in the announcement of the Company dated 18 September 2014.

In 2016, Wuhan Terra received a notification from the People's Court regarding the prosecution filed by the People's Procuratorate. Based on the information currently known to the Group and after consultation with outside legal counsel, a provision of RMB542,413,000, equivalent to $624,968,000 (31 December 2016: $606,363,000) had been set up in relation to the aforementioned litigation, which represented management's best estimate of the expected financial outcome of the litigation.

As at 30 June 2017, the balance of the frozen bank accounts of Wuhan Terra amounted to RMB549,162,000, equivalent to $632,744,000 (31 December 2016: RMB546,850,000, equivalent to $611,323,000), which had been included in the balance of restricted cash.

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23. Share option scheme

The Company operated a share option scheme (the "Scheme") which was approved and adopted on 22 June 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The eligible participants of the Scheme include any employee or director (including executive, non-executive and independent non-executive directors) of any member of the group comprising the Company, Shum Yip Holdings, Shum Yip Group, and their subsidiaries and associated companies from time to time (the "SY Group"), or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the SY Group, as absolutely determined by the board of directors. The Scheme became effective on 22 June 2012 and, unless otherwise cancelled or amended, shall be valid and effective for a period of 10 years from that date, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect.

The terms and conditions of the share options outstanding as at the end of the reporting period are as follows:

Number of options	Exercise price* $ per share	Exercise period
75,320,400	2.8500	28-1-2016 to 27-1-2019
6,014,000	3.3960	28-1-2016 to 27-1-2019
5,490,000	3.1080	14-6-2016 to 27-1-2019
139,048,000	3.5000	20-6-2019 to 19-6-2022
225,872,400		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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23. Share option scheme (Continued)

The number and weighted average exercise price of share options under the Scheme are as follows:

	At 30 June 2017		At 31 December 2016	
	Weighted average exercise price $ per share	**Number of options**	Weighted average exercise price $ per share	Number of options
At 1 January	**2.9052**	**110,132,343**	2.8839	126,406,000
Granted during the period/year	**3.5000**	**139,048,000**	3.1080	6,920,000
Exercised during the period/year	**2.8945**	**(20,545,600)**	2.8500	(10,666,400)
Forfeited during the period/year	**2.8993**	**(1,446,543)**	2.8559	(7,464,057)
Lapsed during the period/year	**2.8500**	**(1,315,800)**	2.8500	(4,730,400)
Cancelled during the period/year	**–**	**–**	3.3960	(332,800)
At 30 June/31 December	**3.2727**	**225,872,400**	2.9052	110,132,343

The weighted average share price at the date of exercise for share options exercised during the Period was $3.7059 per share (2016: $3.7181 per share).

The fair value of the share options granted during the Period was $94,953,000 ($0.6829 each). The Group recognised a share option expense of $3,350,175 during the six months ended 30 June 2017 (six months ended 30 June 2016: $7,890,716).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

23. Share option scheme (Continued)

The fair value of equity-settled share options granted during the Period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Share price ($)	3.5000
Exercise price ($)	3.5000
Dividend yield (%)	6.2900
Volatility (%)	37.4320
Risk-free interest rate (%)	1.005
Expected life of options (year)	2-5

No other feature of the options granted was incorporated into the measurement of fair value.

The 20,545,600 share options exercised during the Period resulted in the issue of 20,545,600 ordinary shares of the Company and an increase in share capital of $69,763,000 (before issue expense).

At the end of the reporting period, the Company had 225,872,400 share options outstanding under the Scheme, representing approximately 2.94% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 225,872,400 additional ordinary shares of the Company and an increase in share capital of $877,327,771 (before issue expenses).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Capital and reserves

(a) Capital

	At 30 June 2017 $'000	At 31 December 2016 $'000
Issued and fully paid: 7,669,710,058 (31 December 2016: 7,649,164,458) ordinary shares	**18,350,954**	18,281,191

(b) Reserves

The amounts of the Group's reserves and the movements therein for the current period are set out in the consolidated statement of changes in equity on pages 28 to 29.

25. Fair value and fair value hierarchy of financial instruments

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Fair value and fair value hierarchy of financial instruments (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

Assets:	Fair value measurement as at 30 June 2017 using				Fair value measurement as at 31 December 2016 using			
	Unadjusted quoted prices in active markets (Level 1) HK$'000	Observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000	Unadjusted quoted prices in active markets (Level 1) HK$'000	Observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Other financial assets	59,681	-	6,337,100	6,396,781	54,798	–	–	54,798
Equity investments at fair value through profit or loss	4,252	-	-	4,252	4,566	–	–	4,566
	63,933	-	6,337,100	6,401,033	59,364	–	–	59,364

Liabilities:	Fair value measurement as at 30 June 2017 using				Fair value measurement as at 31 December 2016 using			
	Unadjusted quoted prices in active markets (Level 1) HK$'000	Observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000	Unadjusted quoted prices in active markets (Level 1) HK$'000	Observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Due to the immediate holding company	-	393,062	-	393,062	–	383,514	–	383,514

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Fair value and fair value hierarchy of financial instruments (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: nil).

The fair values of other financial assets and equity investments at fair value through profit or loss in level 1, all of which are listed equity investments, are determined based on quoted market prices.

The fair values of amount due to the immediate holding company in level 2 have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of other financial assets in level 3 include the fair value of available-for-sale investment and derivative financial instruments. The fair value of available-for-sale investment is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 1% would have increased/decreased the Group's other comprehensive income by $51,425,000 (31 December 2016: nil).

The fair value of derivative financial instruments is determined mainly based on the estimated amount that the Group would receive if the Proposed Reorganisation is not completed by 31 January 2020, taking into account the expected successful rate of the Proposed Reorganisation. The fair value measurement is negatively correlated to the expected successful rate of the Proposed Reorganisation. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in expected successful rate of the Proposed Reorganisation by 1% would have increased/decreased the Group's profit after tax and retained profits by $22,552,000 (31 December 2016: nil).

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2017 and 31 December 2016.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

26. Capital commitments

	At 30 June 2017 $'000	At 31 December 2016 $'000
Commitments in respect of the acquisition of land and buildings, and development costs attributable to properties under development:		
Contracted, but not provided for	**5,298,775**	5,997,713

27. Contingent liabilities

As at 30 June 2017, the Group has given guarantees to a maximum extent of approximately $7,093,929,000 (31 December 2016: $7,869,258,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Related party transactions

(a) Transactions with related parties

	Note	Six months ended 30 June 2017 $'000	2016 $'000
(1) Shum Yip Group, the ultimate holding company:			
– Interest expense	28(d)(ii)	**55,121**	131,876
– Management fee income	(iii)	**988**	1,604
– Rental income	(i)	**5,909**	3,566
(2) Shum Yip Holdings, the immediate holding company:			
– Rental expenses	(i)	**5,018**	5,140
– Management fee expenses	(ii)	**180**	213
– Acquisition of a subsidiary		**–**	2,264,233
– Interest expense	28(d)(i)	**26,676**	11,736
(3) Joint ventures:			
– Sales of products		**44,807**	29,367
– Interest income	28d(iii)	**22,312**	24,093
(4) Fellow subsidiaries:			
– Interest expense		**995**	–
– Rental expenses	(i)	**234**	246
– Interest income		**667**	173

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Related party transactions (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) The rentals were recognised at prices based on mutual agreement between the parties.

(ii) The management fee expense to the immediate holding company was charged at prices based on mutual agreement between the parties.

(iii) Pursuant to the relevant agreements entered into between Shenzhen Nongke Group Limited ("Nongke") and Shum Yip Group on 27 January 2014 and 30 December 2016, Shum Yip Group appointed Nongke to provide management services on its behalf in respect of (a) certain agricultural lands and related assets, and (b) the implementation plan of a property development project. Further details are set out in the circular of the Company dated 12 May 2014. Management fee income in respect of the management services as above mentioned of $988,000 and nil (30 June 2016: $1,010,000 and $594,000), respectively, was charged to Shum Yip Group for the Period.

(b) Other transaction with related parties

At 30 June 2017, the Group's interest-bearing bank loans and other borrowings amounting to $3,772,418,000 (31 December 2016: $3,771,012,000) were guaranteed by Shum Yip Group (note 20(a)).

(c) Commitments with a related party

The Group entered into certain operating lease arrangements with Shum Yip Holdings. The amount of lease expenses for the Period is included in note 28(a) to the interim financial report. The Group expects the total lease expenses in the second half year of 2017, the years of 2018 and 2019 to be approximately $5,331,000, $10,302,000 and $3,434,000 respectively.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Related party transactions (Continued)

(d) Outstanding balances with related parties

(i) The amounts due to the immediate holding company include i) loans amounting to $767,655,000 as at 30 June 2017 (31 December 2016: $752,362,000) classified as non-current liabilities, which are unsecured, bear interest at HIBOR/LIBOR rate plus 2.65% and repayable on 9 November 2019; ii) loans amounting to $2,044,400,000 as at 30 June 2017 (31 December 2016: $1,270,755,000) classified as current liabilities, which are unsecured, bear interest at HIBOR/LIBOR plus 2.65% and repayable within one year, except for a balance of $1,154,110,000 (31 December 2016: $28,167,000) is unsecured, interest-free and has no fixed terms of repayment. Interest expense charged to the immediate holding company for the Period was $26,676,000 (2016:$11,736,000).

(ii) The amounts due to the ultimate holding company of $2,852,510,000 (2016: $2,850,880,000) include loans amounting to $2,065,379,000 as at 30 June 2017 (31 December 2016: $2,576,335,000), which are unsecured, bear interest at rates ranging from one year benchmark lending rate to 5.5% per annum and repayable within one year. The remaining balances of $787,131,000 as at 30 June 2017 (31 December 2016: $274,545,000) are unsecured, interest-free and have no fixed terms of repayment. Interest expense charged to the ultimate holding company for the Period was $55,121,000 (2016:$131,876,000).

(iii) The outstanding balances with joint ventures include i) loan to a joint venture amounting to $58,713,000 as at 30 June 2017 (31 December 2016: $56,965,000), which is unsecured, bears interest rate at 9% per annum and has no fixed terms of repayment; ii) loan to a joint venture of $634,440,000 as at 30 June 2017 (31 December 2016: $976,555,000), which is unsecured, bears interest at 12% per annum and has no fixed terms of repayment; iii) amounts due from joint ventures of $196,954,000 as at 30 June 2017 (31 December 2016: $179,221,000), which are unsecured, interest-free and repayable after 12 months from the end of the reporting period, except for a balance of $11,624,000 (31 December 2016: $11,536,000), which has no fixed terms of repayment. Interest income from the joint ventures for the Period was $22,312,000 (31 December 2016: $24,093,000).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Related party transactions (Continued)

(d) Outstanding balances with related parties (Continued)

(iv) The amount due to an associate included in the Group's other payables and accruals at 30 June 2017 was $315,220,000 (31 December 2016: $301,147,000), which is unsecured, interest-free and has no fixed terms of repayment.

(v) The amounts due to fellow subsidiaries included in the Group's other payables and accruals at 30 June 2017 were $13,056,000 (31 December 2016: $13,652,000), which are unsecured, bear interest at 4.35% per annual and have no fixed terms of repayment.

(e) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Short term employee benefits	**7,885**	7,645
Post-employment benefits	**1,295**	1,004
Share-based payments	**1,009**	3,112
Total compensation paid to key management personnel	**10,189**	11,761

29. Non-adjusting events after the reporting period

Pursuant to a shareholders agreement dated 14 July 2017 entered into between Medos Limited ("Medos"), a wholly-owned subsidiary of the Company and Profit City Global Limited ("Profit City"), a wholly-owned subsidiary of Road King, it is agreed that the maximum capital commitment of the Group to Shum King Limited, a joint venture established by Medos and Profit City for the development of a piece of land in Hong Kong, is $3,000,000,000. Details of the transaction were set out in the announcement of the Company dated 14 July 2017.

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30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

HKFRS 9, Financial instruments

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

The Group decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 9, Financial instruments (Continued)

(a) Classification and measurement

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

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

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

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 9, Financial instruments (Continued)

(a) Classification and measurement (Continued)

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

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised.

Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets.

However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

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

The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements.

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

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

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

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

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

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

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

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition (Continued)

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's property development activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

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

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

Currently, the Group does not apply such a policy when payments are received in advance.

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

(b) Significant financing component (Continued)

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

(c) Sales with a right of return

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

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017 (Continued)

HKFRS 16, Leases

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

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

Disclosure of Interests

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2017, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO), or which were recorded in the register required to be kept under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:–

Long positions in the shares ("Shares") and underlying shares of the Company:

Name of director	Capacity	Number of Shares	Underlying shares pursuant to share options	Aggregate interests	Percentage of Shares in issue *(Note)*
LU Hua	Beneficial owner	1,122,383	12,542,000	13,664,383	0.18
HUANG Wei	Beneficial owner	–	9,522,000	9,522,000	0.12
MOU Yong	Beneficial owner	–	10,414,000	10,414,000	0.14
LIU Chong	Beneficial owner	–	9,414,000	9,414,000	0.12
WU Jiesi	Beneficial owner	3,400,000	–	3,400,000	0.04
LI Wai Keung	Beneficial owner	1,180,880	–	1,180,880	0.02

Note: The percentage was calculated based on 7,669,710,058 Shares in issue as at 30 June 2017.

Disclosure of Interests

Details of the directors' interests in share options granted by the Company are set out in the paragraph headed "Share Option Scheme" under the section headed "Other Information".

Save as disclosed above, none of the directors and chief executive of the Company had, as at 30 June 2017, any interests or short positions in any Shares and underlying shares or debentures of the Company or any of its associated corporations (which is the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of, the Company or its associated corporations and none of the directors, or their spouse or children under the age of 18, had any rights to subscribe for equity or debt securities of the Company or its associated corporations, or had exercised any such rights.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2017, the interests and short positions of the shareholders (other than directors or chief executives of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:–

Disclosure of Interests

Interests in Shares:

Name	Capacity	Number of Shares Long Position	Number of Shares Short Position	Percentage of Shares in issue *(Note 1)*
Shum Yip Group Limited* ("SYG")	Interest in controlled corporation	4,674,502,843 (Note 2)	–	60.95
Shum Yip Holdings Company Limited ("SYH")	Beneficial owner	4,610,751,918	–	60.12
	Interest in controlled corporation	63,750,925 (Note 3)	–	0.83

Notes:

1. The percentage was calculated based on 7,669,710,058 Shares in issue as at 30 June 2017.

2. SYG is deemed to be interested in the 4,674,502,843 Shares which SYH is interested in by virtue of SYH being its direct wholly-owned subsidiary.

3. These 63,750,925 Shares were held by Goldclass Industrial Limited, a wholly-owned subsidiary of Successful Years Holdings Limited, which in turn is wholly-owned by Shum Yip Finance Company Limited ("SYF"). SYF is a wholly-owned subsidiary of SYH and accordingly, SYH is deemed to be interested in these 63,750,925 Shares.

* *The English translation is for identification purpose only*

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any person (other than directors and chief executives of the Company) who had interests or short positions in the Shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

Other Information

SHARE OPTION SCHEME

The Company adopted a share option scheme on 22 June 2012 ("Share Option Scheme"). During the period, 139,048,000 options were granted, 20,545,600 options were exercised, 2,631,600 options were lapsed and 130,743 options were cancelled under the Share Option Scheme. As at 30 June 2017, 225,872,400 options granted under the Share Option Scheme were still outstanding.

The particulars of, and movements in, the share options outstanding under the Share Option Scheme during the period are set out below:

	Number of share options									
	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2017	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Directors										
LU Hua	7,830,000	–	3,000,000	–	–	–	4,830,000	28/1/2014	28/1/2016-27/1/2019*	2.85
		7,712,000 (Note 1, 2)	–	–	–	–	7,712,000	20/6/2017	20/6/2019-19/6/2022***	3.50
HUANG Wei	3,196,000	–	1,000,000	–	–	–	2,196,000	27/7/2015	28/1/2016-27/1/2019*	3.396
		7,326,000 (Note 1, 2)	–	–	–	–	7,326,000	20/6/2017	20/6/2019-19/6/2022***	3.50
MOU Yong	5,246,000	–	–	–	–	–	5,246,000	28/1/2014	28/1/2016-27/1/2019*	2.85
		5,168,000 (Note 1, 2)	–	–	–	–	5,168,000	20/6/2017	20/6/2019-19/6/2022***	3.50
LIU Chong	5,246,000	–	1,000,000	–	–	–	4,246,000	28/1/2014	28/1/2016-27/1/2019*	2.85
		5,168,000 (Note 1, 2)	–	–	–	–	5,168,000	20/6/2017	20/6/2019-19/6/2022***	3.50
	21,518,000	25,374,000	5,000,000	–	–	–	41,892,000			

Other Information

	Number of share options									
	At 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2017	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Other employees										
In aggregate	77,745,600	–	14,115,600	2,631,600	–	–	60,998,400	28/1/2014	28/1/2016-27/1/2019*	2.85
	3,948,743	–	–	–	130,743	–	3,818,000	27/7/2015	28/1/2016-27/1/2019*	3.396
	6,920,000	–	1,430,000	–	–	–	5,490,000	14/6/2016	14/6/2016-27/1/2019**	3.108
	–	113,674,000 (Note 1, 2)	–	–	–	–	113,674,000	20/6/2017	20/6/2019-19/6/2022***	3.50
	88,614,343	113,674,000	15,545,600	2,631,600	130,743	–	183,980,400			
	110,132,343	139,048,000	20,545,600	2,631,600	130,743	–	225,872,400			

* Options shall be exercisable in the following manner and subject to performance review:–

Maximum percentage of Share Option exercisable	Period for exercise of the relevant percentage of the Share Option
40%	at any time from 28 January 2016 to 27 January 2017
70%	at any time from 28 January 2017 to 27 January 2018
100%	at any time from 28 January 2018 to 27 January 2019

Other Information

** Options shall be exercisable in the following manner and subject to performance review:–

Maximum percentage of Share Option exercisable	Period for exercise of the relevant percentage of the Share Option
40%	at any time from 14 June 2016 to 27 January 2017
70%	at any time from 28 January 2017 to 27 January 2018
100%	at any time from 28 January 2018 to 27 January 2019

*** Options shall be exercisable in the following manner and subject to performance review:–

Maximum percentage of Share Option exercisable	Period for exercise of the relevant percentage of the Share Option
40%	at any time from 20 June 2019 to 19 June 2020
70%	at any time from 20 June 2020 to 19 June 2021
100%	at any time from 20 June 2021 to 19 June 2022

Notes:

1. The closing share price was HK$3.49 per Share on 19 June 2017, being the date immediately before the day on which such options were granted.

2. Being the offer of the grant of options subsequently accepted by the grantees and deemed to have been granted on the offer date i.e. 20 June 2017. The initial number of options offered to be granted to Dr. LU Hua, Mr. HUANG Wei, Mr. MOU Yong and Mr. LIU Chong and the employees were 8,740,000, 8,302,000, 5,856,000, 5,856,000 and 128,808,000 respectively.

Other Information

Interim Dividend

The Board has declared an interim dividend of HK7.00 cents per Share for the six months ended 30 June 2017 (2016: HK7.00 cents) payable on or about Monday, 20 November 2017 to shareholders whose names appear on the register of members of the Company on Friday, 15 September 2017.

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

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the scrip shares to be issued under the Scrip Dividend Scheme. A circular containing the details of the Scrip Dividend Scheme together with relevant election form will be sent to shareholders on or about Wednesday, 18 October 2017.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 14 September 2017, to Friday, 15 September 2017 (both dates inclusive), during which period no transfers of Shares will be registered. To qualify for the interim dividend, all duly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 13 September 2017.

Other Information

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 ("Listing Rules") throughout the six months ended 30 June 2017, except for code provision E.1.2 that our Chairman, Dr. LU Hua was not able to attend the annual general meeting of the Company held on 8 June 2017 due to other business commitment. Our President, Mr. HUANG Wei chaired the meeting and, together with the chairman of the audit committee, nomination committee and remuneration committee and other directors, were present to answer the shareholders' questions.

Audit Committee

The Audit Committee comprises three independent non-executive directors namely Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar, David. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2017 and this report.

Compliance with Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the period from 1 January 2017 to 30 June 2017.

Update On Directors' Information

Dr. WU Jiesi resigned as an independent director from China Life Franklin Asset Management Co., Ltd. on 30 June 2017.

Other Information

Purchase, Sale or Redemption of The Company's Securities

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

Continuing Disclosure Requirements Under Rule 13.21 of The Listing Rules

Banking facilities with covenants in relation to specific performance of the controlling shareholder:

By an agreement ("1st Facility Agreement") dated 9 October 2013 entered into between the Company as borrower and certain banks, up to a principal amount of US$235 million (or equivalent to approximately HK$1,833 million) transferable term loan facility and up to a principal amount of HK$1,654 million transferable term loan facility ("1st Facility") were provided to the Company. The 1st Facility shall be repaid by the Company in four instalments of various percentages of the total amount of borrowings, with all outstanding amount shall be fully repaid on the date falling 60 months from the date of the 1st Facility Agreement.

By an agreement ("2nd Facility Agreement") dated 25 August 2014 entered into between the Company as borrower and certain banks, up to a principal amount of US$435 million (equivalent to approximately HK$3,393 million) transferable term loan facility and up to a principal amount of HK$2,510 million transferable term loan facility ("2nd Facility") were provided to the Company. The 2nd Facility shall be repaid by the Company in three instalments of various percentages of the total amount of borrowings, with all outstanding amount shall be fully repaid on the date falling 60 months from the date of the 2nd Facility Agreement.

By an agreement ("3rd Facility Agreement") dated 4 December 2014 entered into between the Company as borrower and a bank, up to a principal amount of HK$400 million transferable term loan facility ("3rd Facility") was provided to the Company. The 3rd Facility shall be fully repaid in 36 months commencing from the date of the 3rd Facility Agreement.

By an agreement ("4th Facility Agreement") dated 29 May 2015 entered into between the Company as borrower and a bank, up to a principal amount of HK$200 million term loan facility ("4th Facility") was provided to the Company. The 4th Facility shall be fully repaid by the Company in three instalments with the last repayment date falling 60 months from the date of the 4th Facility Agreement.

Other Information

By an agreement ("5th Facility Agreement") dated 7 March 2016 entered into between the Company as borrower and a syndicate of lenders, a US$230 million transferable term loan facility and a HK$1,000 million transferable term loan facility ("5th Facility") were provided to the Company on the terms and conditions as stated therein. The 5th Facility shall be repaid by the Company in instalments with the last repayment date falling 60 months from the date of the 5th Facility Agreement.

By an agreement ("6th Facility Agreement") dated 9 August 2017 entered into between the Company as borrower and a bank, up to a principal amount of HK$500 million transferable term loan facility ("6th Facility") was provided to the Company. The term of the 6th Facility is 48 months commencing from the date of the 6th Facility Agreement.

On 16 August 2017, the Company as borrower accepted the facility letter ("7th Facility Agreement") relating to a transferable term loan facility up to a principal amount of HK$600 million (or its equivalent in United States dollars) ("7th Facility") offered by a bank as lender. The Company shall repay in full to the lender each borrowing of a portion of the 7th Facility on the date falling 48 months from the date such borrowing is made and all other sums (if any) then owing under the 7th Facility Agreement on the date falling 54 months from the date the lender notifies the Company that the conditions precedent under the 7th Facility Agreement have been complied with.

On 18 August 2017, the Company as borrower accepted the facility letter ("8th Facility Agreement", together with the 1st Facility Agreement, 2nd Facility Agreement, 3rd Facility Agreement, 4th Facility Agreement, 5th Facility Agreement, 6th Facility Agreement and 7th Facility Agreement collectively referred to as the "Facility Agreements") relating to a term loan facility of up to US$65,000,000 (or its equivalent in Hong Kong dollars) ("8th Facility") offered by a bank as lender. The 8th Facility shall be fully repaid by the Company in three instalments with the last repayment date falling 36 months from the acceptance date of the 8th Facility Agreement.

Under the Facility Agreements, it will be an event of default if Shum Yip Holdings Company Limited ceases to own beneficially at least 35% of the issued share capital of the Company, ceases to be the single largest shareholder of the Company, ceases to have management control of the Company, or ceases to remain beneficially owned as to at least 51% by the Shenzhen Municipal People's Government of the People's Republic of China and at any time after the happening of an event of default, all amounts due under the facilities may be declared to be immediately due and payable.

深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

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