深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

股份代號 Stock Code: 00604

二零一八年中期報告
Interim Report 2018

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. LIU Shichao

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

Website

www.shenzheninvestment.com

Principal Bankers

Bank of China (Hong Kong) Limited
DBS Bank Ltd., Hong Kong Branch
China Construction Bank Corporation, Hong Kong Branch
The Bank of East Asia, Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Shanghai Pudong Development Bank Co., Ltd. Hong Kong Branch
China Citic Bank International Limited
Hang Seng Bank Limited
Wing Lung Bank Limited

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

Chairman's Statement

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

Given uncertain external environment, the Group pushed forward each task as scheduled, including expanding quality land resources, strengthening financing and financial security, and reviewing company strategies to adapt to changes in economic environment and revolution of the real estate industry. During the six months ended 30 June 2018 ("Period"), affected by the non-cash loss arising from changes in fair value of the equity interests in Hengda Real Estate Group Company Limited ("Hengda Real Estate") held by the Group and on the back of a high base due to the one-off gains of HK$3.3 billion from the disposal of projects in the third-tier and fourth-tier cities during the same period of last year, results of the Group experienced substantial fluctuations during the Period.

2018 Interim Results

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

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

Chairman's Statement

Sales Results in Line with Expectation

The sales of the Group in the first half of the year were in line with expectation with contracted sales of approximately RMB4.3 billion, of which, the contribution from Shenzhen projects accounted for approximately 47%. Main projects include Shum Yip Dongling, UpperHills, Ma'anshan Shum Yip Huafu and Gaobangshan No.1. Shum Yip Zhongcheng (apartments and office) and Taifu Square, accounting for approximately two-thirds of properties value for the year, will be launched in the second half of the year as planned. It is expected that the contracted sales will increase substantially in the second half of the year.

Expansion of Quality Land Resources

The development of Guangdong-Hong Kong-Macao Big Bay Area has been formally upgraded to a national strategy. The Group continued to focus on the Big Bay Area, and intensified its development in Shenzhen by expanding land resources. During the Period, the Group entered into a relocation and compensation agreement with the original owners including subsidiaries of Shum Yip Group, the ultimate holding company of the Company, for the urban renewal project of Xinhongcheng (信宏城城市更新項目), which is located at Xiashijiacun, Jiangshicun, Gongming Street, Guangming New District, Shenzhen. The project has been included in the Shenzhen City Urban Renewal Planning (深圳市城市更新單元計劃) in 2015 and was approved by the Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規土委) for redevelopment into a modern community with residential and commercial functions. The project covers an area of approximately 90,000 square meters, with a total gross floor area of approximately 220,000 square meters (including resettlement houses of approximately 72,000 square meters), of which, 180,000 square meters is for residential use, approximately 19,000 square meters is for indemnificatory apartments and 12,000 square meters is for commercial use. The Group expects to obtain the qualification of development capacity during the year. In addition, positive results have been achieved in the redevelopment work of the Group in Shenzhen during the Period. The Shanglinyuan project in Bagualing has been included in the urban renewal planning and is under planning approval. It is expected that the qualification of development capacity will be obtained during the year.

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

Chairman's Statement

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

Sound Financial Position Maintained

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

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

Outlook

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

Chairman's Statement

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

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

Chairman's Statement

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

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

Chairman's Statement

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

LU HUA
Chairman

27 August 2018

Management Discussion and Analysis

Overall Results

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

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

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

Management Discussion and Analysis

Property Development Business

Sales Revenue Booked

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

Property Sales Booked in the First Half of 2018

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

Note*: 1,011 parking lots were sold

Management Discussion and Analysis

Contracted Sales

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

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

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

Management Discussion and Analysis

Contracted Sales in the First Half of 2018

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

Notes:

1. The amount of sales included the sales amount of parking lots.

2. The project was co-developed with Shenzhen Metro Group, as to 50% owned by the Group, and it is accounted using equity method.

Project Development

During the Period, the Group had a new construction area of approximately 787,000 square meters, representing an increase of 33.6% over the same period of last year and a completed area of approximately 531,000 square meters, representing an increase of 9.0% over the same period of last year.

New Construction Projects in the First Half of 2018

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

Completed Projects in the First Half of 2018

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

Management Discussion and Analysis

Land Reserves

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

Breakthrough in Urban Redevelopment

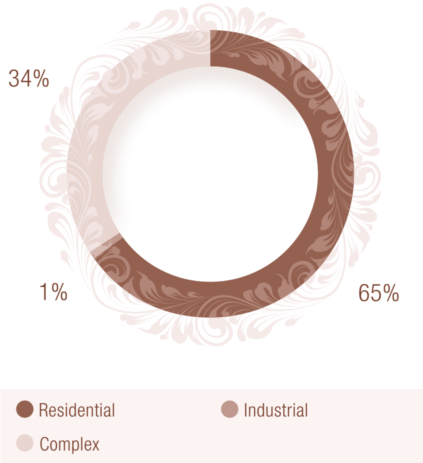
During the Period, the Group entered into a relocation and compensation agreement with the original owner inclusive of subsidiaries of Shum Yip Group, the ultimate holding company of the Company, in relation to Xinhongcheng redevelopment project. The redevelopment project of Xinhongcheng is located at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

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

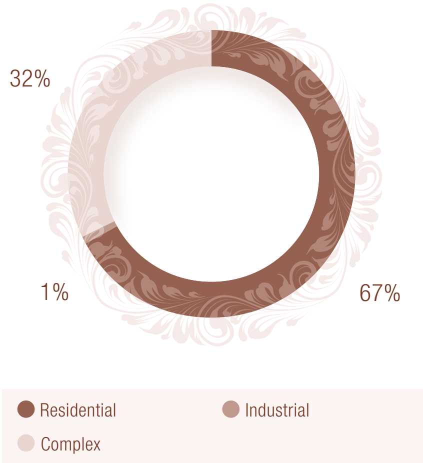
Management Discussion and Analysis

Distribution of Land Reserves (As at 30 June 2018)

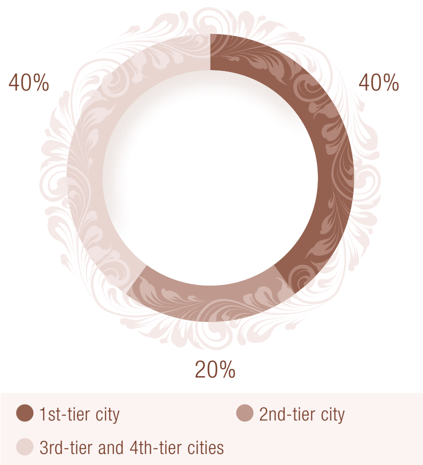
By type – Planned GFA notes 1 and 3 (sq.m.)



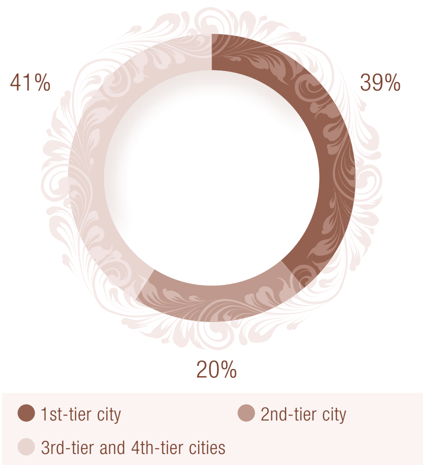
By type – Capacity Building Area notes 2 and 3 (sq.m.)



By City – Planned GFA notes 1 and 3 (sq.m.)



By City – Capacity Building Area notes 2 and 3 (sq.m.)



Notes:

1. Planned GFA: the sum of the gross floor area of all the floors above and under the ground of a single building or buildings within the scope of the land for construction.

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

3. Including Xinhongcheng project.

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

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

Property Investment

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

Management Discussion and Analysis

Progress in Property Leasing

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

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

Property Management

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

Hotel Operations

The Group owns four hotels in operation and two hotels in construction. Those in operation are Suzhou Marriott Hotel (with 293 guest rooms), Chaohu Shumyip Bantang Hot Spring Hotel (with 20 spring villas), Holiday Inn Resort Chaohu Hot Spring (with 203 guest rooms) and Muji Hotel (with 79 guest rooms) in UpperHills, Shenzhen. Those under construction are Mandarin Oriental Shenzhen (with 190 guest rooms planned) and Tanglang City Project Hotel in Shenzhen (with 200 guest rooms planned), which is co-developed with Shenzhen Metro Group.

During the Period, the four hotels in operation recorded operating income (included under other operating segment) of approximately HK$108.0 million, representing an increase of 30.8% over the same period of last year.

Management Discussion and Analysis

Manufacturing Business

The Group's manufacturing business mainly represents the LCD manufacturing and metal materials processing and other businesses which have been held by the companies under the Group over the years. During the Period, the manufacturing business recorded operating income of approximately HK$160.7 million, representing a decrease of 4.3% over the same period of last year.

Performance of Joint Ventures

During the Period, the performance of Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) was flat with last year. The principal activity of the company is to assist local government in primary land development and the local government did not make any arrangement to launch such lands during the Period.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of HK$84.8 million for the Period, compared with a loss of HK$10.0 million for the same period of last year. The company and Shenzhen Metro Group jointly developed the Shenzhen's Tanglang City Project.

Shenzhen Tianan Cyber Park (Group) Co., Ltd. made a net profit contribution of HK$45.1 million to the Group, representing an increase of 122.2% over the same period of last year.

Performance of Associates

During the Period, the associates invested by the Group performed as expected. Of which, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK$218.2 million to the Group, representing an increase of 180.5% over the same period of last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$58.9 million to the Group, compared with a loss of HK$145.2 million for the same period of last year.

Management Discussion and Analysis

Investment in Hengda Real Estate

During 2017, the Group, through Ma'anshan Maowen Technology Industrial Park Co., Ltd., a wholly owned subsidiary of the Company, entered into an investment agreement with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate") and Hengda Real Estate (both being subsidiaries of China Evergrande Group) to contribute an amount of RMB5.5 billion to the capital of Hengda Real Estate in exchange for 1.76% equity interests in Hengda Real Estate. As required by HKFRS 9, the equity interests held by the Group in Hengda Real Estate was included as financial assets at fair value through profit or loss and accounted for at fair value, with changes in fair value recognised in profit or loss. The fair value of the Group's equity investment in Hengda Real Estate is determined using the transaction price in an active market for an identical asset, adjusted for a significant observable input, which is the movement of share price between the transaction date and the measurement date of a comparable listed company (China Evergrande Group) that is highly positively correlated to the changes in valuation of that financial assets.

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

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

Management Discussion and Analysis

Financing

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

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

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

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

Financial Position

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

Effect of Exchange Rate Fluctuation

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

Land Appreciation Tax ("LAT")

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

Management Discussion and Analysis

Other Operating Expenses

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

Pledge of Assets and Contingent Liabilities

As at 30 June 2018, the Group had total loans of HK$414.4 million (31 December 2017: HK$402.9 million) that were pledged with assets (please refer to note 19 to the financial report for details).

As at 30 June 2018, the Group had provided guarantees to a maximum of HK$7,122.0 million (31 December 2017: HK$6,556.1 million) to banks for housing loans extended by the banks to the purchasers of the Group's properties (please refer to note 25 to the financial report for details).

Employees and Remuneration Policy

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

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

Report on Review of Interim Financial Report

KPMG

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 25 to 88 which comprises the consolidated statement of financial position of Shenzhen Investment Limited (the "Company") as of 30 June 2018 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 an 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 2018 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

27 August 2018

Consolidated Statement of Profit or Loss

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

		Six months ended 30 June	
		2018	2017
			(Note)
	Note	**$'000**	$'000
Revenue	5	**11,304,212**	5,453,811
Cost of sales		**(7,422,740)**	(3,256,808)
Gross profit		**3,881,472**	2,197,003
Other income and gains	5	**152,488**	91,065
Gain on disposal of subsidiaries		**12,997**	3,676,757
Decrease in fair value of financial assets at fair value through profit or loss, net	16	**(1,887,873)**	(314)
Increase in fair value of investment properties		**478,600**	272,928
Selling and distribution expenses		**(84,371)**	(100,196)
Administrative expenses		**(394,680)**	(346,921)
Other operating expenses		**(232,716)**	(74,042)
Finance costs	6	**(359,208)**	(211,436)
Share of profits less losses of joint ventures and associates		**295,024**	(56,251)
Profit before taxation	7	**1,861,733**	5,448,593
Income tax expense	8	**(1,544,663)**	(1,740,453)
Profit for the period		**317,070**	3,708,140
Attributable to:			
Equity shareholders of the Company		**217,266**	3,628,682
Non-controlling interests		**99,804**	79,458
		317,070	3,708,140
Earnings per share	9		
Basic		**HK2.70 cents**	HK47.42 cents
Diluted		**HK2.69 cents**	HK47.41 cents

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

The notes on pages 32 to 88 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Six months ended 30 June	
	2018	2017
		(i)
	$'000	$'000
Profit for the period	**317,070**	3,708,140
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
Item that may be reclassified subsequently to profit or loss:		
– Available-for-sale investments: net movement in fair value reserve (recycling) (ii)		
– Changes in fair value	**–**	4,883
– Income tax effect	**–**	(1,221)
	–	3,662
– Share of other comprehensive income of joint ventures and associates	**(29,403)**	32,951
– Exchange fluctuation reserve released upon disposal of subsidiaries	**6,830**	(93,486)
– Exchange differences on translation of foreign operations	**(515,704)**	1,312,499
	(538,277)	1,255,626
Other comprehensive income for the period, net of tax	**(538,277)**	1,260,925
Total comprehensive income for the period	**(221,207)**	4,969,065
Attributable to:		
Equity shareholders of the Company	**(288,602)**	4,775,072
Non-controlling interests	**67,395**	193,993
Total comprehensive income for the period	**(221,207)**	4,969,065

Note:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained profits. See note 3.

The notes on pages 32 to 88 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2018 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2018 $'000	At 31 December 2017 (Note) $'000
Non-current assets			
Property, plant and equipment	11	**4,731,847**	4,746,901
Prepaid land lease payments		**36,408**	37,349
Goodwill		**376,068**	379,302
Investment properties	12	**27,114,915**	26,939,445
Interests in associates	14	**4,408,762**	4,431,186
Interests in joint ventures	15	**4,988,009**	4,816,707
Other financial assets		**–**	7,869,007
Financial assets at fair value through profit or loss	16	**5,910,720**	–
Financial assets at fair value through other comprehensive income		**61,737**	–
Other long term assets		**2,699,026**	3,015,861
Deferred tax assets		**2,210,902**	2,028,151
		52,538,394	54,263,909
Current assets			
Biological assets		**862**	333
Completed properties held for sale		**8,666,646**	5,977,395
Properties under development	13	**37,020,074**	39,710,990
Inventories		**153,696**	115,699
Trade receivables	17	**419,018**	371,047
Prepayments, deposits and other receivables		**3,009,163**	3,799,165
Equity investments at fair value through profit or loss		**–**	4,517
Financial assets at fair value through profit or loss	16	**3,479**	–
Restricted cash	18	**1,415,133**	1,817,022
Cash and cash equivalents	18	**7,933,788**	11,167,070
		58,621,859	62,963,238

Consolidated Statement of Financial Position

At 30 June 2018 – unaudited (Expressed in Hong Kong dollars)

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

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

The notes on pages 32 to 88 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 – 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	Fair value reserve (recycling) $'000	Statutory reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 31 December 2017		19,712,476	(268,552)	52,330	59,019	219,851	865,997	2,987,746	1,714,470	16,124,904	41,468,241	3,632,591	45,100,832
Impact on initial application of HKFRS 15	3(a)	-	-	-	-	-	-	-	-	(8,286)	(8,286)	-	(8,286)
Impact on initial application of HKFRS 9	3(a)	-	-	-	-	-	(865,997)	-	-	666,717	(199,280)	(49,562)	(248,842)
Adjusted balance at 1 January 2018		19,712,476	(268,552)	52,330	59,019	219,851	-	2,987,746	1,714,470	16,783,335	41,260,675	3,583,029	44,843,704
Changes in equity for the six months ended 30 June 2018													
Profit for the period		-	-	-	-	-	-	-	-	217,266	217,266	99,804	317,070
Other comprehensive income		-	-	-	-	-	-	-	(505,868)	-	(505,868)	(32,409)	(538,277)
Total comprehensive income		-	-	-	-	-	-	-	(505,868)	217,266	(288,602)	67,395	(221,207)
Final 2017 dividend declared	10	-	-	-	-	-	-	-	-	(886,449)	(886,449)	-	(886,449)
Exercise of share options		1,371	-	(204)	-	-	-	-	-	-	1,167	-	1,167
Equity-settled share option expense	21	-	-	20,810	-	-	-	-	-	-	20,810	-	20,810
Dividends to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(56,296)	(56,296)
Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	-	(82,261)	(82,261)
Balance at 30 June 2018		19,713,847	(268,552)	72,936	59,019	219,851	-	2,987,746	1,208,602	16,114,152	40,107,601	3,511,867	43,619,468

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 – 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	Fair value reserve (recycling) $'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	10	–	–	–	–	–	–	–	–	(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	21	–	–	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 32 to 88 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

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

	Note	Six months ended 30 June 2018 $'000	2017 $'000
Operating activities			
Cash generated from operations		**278,539**	381,529
Tax paid		**(3,845,731)**	(2,395,497)
Net cash used in operating activities		**(3,567,192)**	(2,013,968)
Investing activities			
Payment for the purchase of property, plant and equipment		**(137,377)**	(54,542)
Net cash received from disposal of subsidiaries		**–**	6,595,393
Purchases of other financial assets	16	**–**	(6,337,100)
Other cash flows arising from investing activities		**(1,239,926)**	(13,856)
Net cash (used in)/generated from investing activities		**(1,377,303)**	189,895
Financing activities			
Proceeds from bank and other borrowings		**6,864,483**	3,544,848
Repayments of bank and other borrowings		**(3,311,007)**	(3,332,460)
Dividends paid to non-controlling shareholders		**(49,249)**	(245,425)
Other cash flows arising from financing activities		**(1,730,754)**	(510,802)
Net cash generated from/(used in) financing activities		**1,773,473**	(543,839)
Net decrease in cash and cash equivalents		**(3,171,022)**	(2,367,912)
Cash and cash equivalents at 1 January		**11,167,070**	9,859,526
Effect of changes in foreign exchange rate		**(62,260)**	98,737
Cash and cash equivalents at 30 June		**7,933,788**	7,590,351

The notes on pages 32 to 88 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 27 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (Continued)

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 2017 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

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 23 to 24.

The financial information relating to the financial year ended 31 December 2017 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 2017 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

(a) Overview

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

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

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9 and note 3(c) for HKFRS 15.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

(a) Overview (Continued)

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

Further details of these changes are set out in sub-sections (b) and (c) of this note.

3 Changes in accounting policies (Continued)

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

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

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

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

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified as measured at amortised cost as the Group's investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

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

(i) Classification of financial assets and financial liabilities (Continued)

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

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

(i) Classification of financial assets and financial liabilities (Continued)

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	Remeasurement $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets carried at amortised cost				
Restricted cash	1,817,022	–	–	1,817,022
Cash and cash equivalents	11,167,070	–	–	11,167,070
Interest in joint ventures				
– Loans to joint ventures	1,288,841	–	(38,665)	1,250,176
Other long term assets	3,015,861	–	(128,890)	2,886,971
Trade receivables	371,047	–	(40,023)	331,024
Prepayments, deposits and other receivables	2,416,178	–	(120,846)	2,295,332
	20,076,019	–	(328,424)	19,747,595
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity investments in mainland China (note (i))	–	62,268	–	62,268
Financial assets carried at FVPL				
Unlisted equity investments in mainland China (note (i))	–	7,698,699	–	7,698,699
Listed equity investments in mainland China (note (ii))	–	37,591	–	37,591
Equity investments at fair value through profit or loss (note (iii))	4,517	–	–	4,517
Derivative financial instrument (note (iii))	70,449	–	–	70,449
	74,966	7,736,290	–	7,811,256
Financial assets classified as available-for-sale under HKAS 39 (notes (i) and (ii))	7,798,558	(7,798,558)	–	–

3 Changes in accounting policies (Continued)

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

(i) Classification of financial assets and financial liabilities (Continued)

Notes:

(i) Under HKAS 39, unlisted equity investments in mainland China of $7,760,967,000 not held for trading were classified as available-for-sale financial assets. These unlisted equity investments in mainland China are classified as FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated unlisted equity investments in mainland China not held for trading of $62,268,000 at FVOCI (non-recyclable).

(ii) Under HKAS 39, listed equity investments in mainland China of $37,591,000 were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

(iii) Equity investments at fair value through profit or loss and derivative financial instrument were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

As a result of this change in accounting policy, the balance of fair value reserve (recycling) of $865,997,000 has been reclassified to retained profits as an opening adjustment at 1 January 2018.

3 Changes in accounting policies (Continued)

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

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the Expected Credit Loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, other long term assets, other receivables and loans to related parties included in prepayment, deposits and other receivables and loans to joint ventures included in interests in joint ventures); and

– loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

Significant increases in credit risk (Continued)

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

Basis of calculation of interest income on credit-impaired financial assets (Continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

Write-off policy

The gross carrying amount of a financial asset, trade and other receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3 Changes in accounting policies (Continued)

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

(ii) Credit losses (Continued)

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to $328,424,000, which decreased retained profits by $199,280,000 and non-controlling interests by $49,562,000 and increased gross deferred tax assets by $79,582,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	$'000
Loss allowance at 31 December 2017 under HKAS 39	34,155
Additional credit loss recognised at 1 January 2018 on:	
– Interests in joint ventures	38,665
– Other long term assets	128,890
– Trade receivables	40,023
– Other receivables and loans to related parties	120,846
Loss allowance at 1 January 2018 under HKFRS 9	362,579

3 Changes in accounting policies (Continued)

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

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

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3 Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from contracts with customers

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

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

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

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

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

3 Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from contracts with customers (Continued)

(i) Timing of revenue recognition (Continued)

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three 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 is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from construction contracts.

The directors also assessed the impact on adoption of HKFRS 15 to the Group's sales of properties and considered this change in accounting policy had no material impact on opening balances as at 1 January 2018. However, in future periods it may have a material impact, depending on the timing of completion of the Group's property development projects.

3 Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from contracts with customers (Continued)

(ii) 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 of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than when the construction is completed and the customers obtain control of the property.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the date when the customers obtain control of the property. This accrual increases the amount of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, Borrowing costs.

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3 Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from contracts with customers (Continued)

(ii) Significant financing component (Continued)

As a result of this change in policy, the Group has made adjustments which increased properties under development by $295,577,000 and contract liabilities by $303,863,000 at 1 January 2018. As not all of the accrued interest was eligible to be capitalised into projects still under construction, this change in policy decreased retained profits as at 1 January 2018 by $8,286,000.

(iii) Sales commissions payable related to property sales contracts

Under HKFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as selling and distribution expenses at that time.

This change in accounting policy had no material impact on opening balances as at 1 January 2018. However, in future periods it may have a material impact, depending on the timing of completion of the Group's property development projects.

(iv) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

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3 Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from contracts with customers (Continued)

(iv) Presentation of contract assets and liabilities (Continued)

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented.For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances were presented in the statement of financial position under "trade and other payables", and the revenue was recognised for the reasons explained in paragraph (i) above.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

Receipts in advance amounting to $8,850,463,000 which used to be included in "Other payables and accruals", are now included under contract liabilities.

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

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

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

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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.

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

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4 Segment reporting (Continued)

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						(20,621)
Other income and gains						91,065
Decrease in fair value of equity investments at fair value through profit or loss, net						(314)
Corporate and other unallocated expenses						(73,894)
Finance costs						(211,436)
Profit before taxation						5,448,593
As at 31 December 2017						
Segment assets:	58,337,980	30,789,340	509,701	150,975	3,913,127	93,701,123
Reconciliation						
Corporate and other unallocated assets						23,526,024
Total assets						117,227,147
Segment liabilities:	18,338,956	4,640,678	752,103	87,631	195,756	24,015,124
Reconciliation						
Corporate and other unallocated liabilities						48,111,191
Total liabilities						72,126,315

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

6 Finance costs

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

7 Profit before taxation

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

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

8 Income tax expense

The provision for Hong Kong Profits Tax for the six months ended 30 June 2018 is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for the interim period ("Period"). No provision for Hong Kong Profits Tax was made as the Group has no assessable profits arising in or derived from Hong Kong for the Period (six months ended 30 June 2017: nil).

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

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

9 Earnings per share

(a) Basis earnings per share

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

(b) Diluted earnings per share

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

10 Dividends

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Dividends recognised as distribution during the Period:		
Final dividend declared for 2017 – HK11.00 cents per share (2017: declared for 2016 – HK10.00 cents per share) (i)/(ii)		
Scrip shares	**549,527**	601,814
Cash	**336,922**	165,152
Special dividend declared for 2017 – nil per share (2016: HK5.00 cents per share) (i)/(ii)		
Scrip shares	**–**	300,907
Cash	**–**	82,576
	886,449	1,150,449
Dividend declared in respect of current period:		
Proposed interim dividend for 2018 – HK7.00 cents per share (2017: HK7.00 cents per share) (i)/(iii)	**576,223**	555,244

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

10 Dividends (Continued)

Notes:

(i) The shareholders are given the option of receiving these dividends wholly in cash, or wholly in new fully paid share(s) of the Company in lieu of cash, or partly in cash and partly in the form of scrip shares.

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

The Company declared a final dividend of HK10.00 cents per share and a special dividend of HK5.00 cents per share in respect of year ended 31 December 2016 amounted to $1,150,449,000, of which $247,728,000 were paid in cash and the remaining balance of $902,721,000 were settled in the form of 258,807,500 scrip shares on 18 August 2017.

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

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

11 Property, plant and equipment

During the six month ended 30 June 2018, the Group acquired items of property, plant and equipment with a cost of $137,377,000 (six months ended 30 June 2017: $54,542,000).

As at 30 June 2018, the Group has not yet obtained the ownership certificates in respect of the buildings with a net carrying value of $370,450,000 (31 December 2017: $380,835,000).

As at 30 June 2018, certain of the Group's land and buildings in mainland China with a net carrying amount of approximately $693,096,000 (31 December 2017: $699,057,000) were pledged to secure bank loans granted to the Group (note 19(a)(ii)).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

12 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 2018 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 $27,114,915,000 (31 December 2017: $26,939,445,000).

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 23(a)(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 2018 $'000	At 31 December 2017 $'000
Recurring fair value measurement for:		
Commercial properties	**24,081,194**	24,018,645
Industrial properties	**3,033,721**	2,920,800
	27,114,915	26,939,445

The Group's property manager and the General Manager of Finance Management Department 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)

12 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	(55%) – 43% (2017: (50%) – 43%)
	Capitalised rental income method	Risk-adjusted discount rate	5.6% – 5.8% (2017: 5.48% – 6.00%)
Industrial properties	Comparison method	Discount on quality of the buildings	(58%) – (10%) (2017: (58%) – (10%))

* Except for certain investment properties under development valued using capitalised rental income approach (see below), 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.

Capitalised rental income approach is adopted to determine the fair value of certain investment properties under development. The valuation takes into account current rental income of the property interest and the reversionary potential of the tenancy. The discount rates used have been adjusted for the quality and location of the building and the tenant credit quality.

Certificates of ownership in respect of certain investment properties of the Group with a net carrying amount of approximately $1,639,412,000 as at 30 June 2018 (31 December 2017: $1,720,575,000) 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 2018, the Group's investment properties with a net carrying value of approximately $517,303,000 (31 December 2017: $521,752,000) was pledged to secure bank loans granted to the Group (note 19(a)(ii)).

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(Expressed in Hong Kong dollars unless otherwise indicated)

13 Properties under development

	At 30 June 2018 $'000	At 31 December 2017 $'000
Land in mainland China held under medium term leases	**30,582,184**	30,448,105
Development expenditure, at cost	**6,572,056**	9,398,204
	37,154,240	39,846,309
Less: Write-down of properties under development	**(134,166)**	(135,319)
	37,020,074	39,710,990

As at 30 June 2018, the Group's properties under development with a carrying amount of approximately $1,154,942,000 (2017: nil) were pledged to secure bank loans granted to the Group (note 19(a)(i)).

As at 30 June 2018, the application for certificates of land use rights in mainland China for land held under medium term leases with a net carrying amount of $2,173,511,000 (31 December 2017: $2,866,383,000) was still in progress.

14 Interests in associates

	At 30 June 2018 $'000	At 31 December 2017 $'000
Unlisted	**131,069**	125,842
Listed in Hong Kong	**5,093,693**	5,121,344
Provision for impairment*	**(816,000)**	(816,000)
	4,408,762	4,431,186

* 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Interests in associates (Continued)

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

Name	Business structure	Place of incorporation and business	Issued ordinary share capital	Percentage of ownership interest attributable to the Group		Principal activities
				30 June 2018	31 December 2017	
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	749,336,566 ordinary shares of $0.1 each	**27.00**	27.05	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.

The Group's shareholdings in the associates comprise equity shares held by the Company, except for Road King, the shareholdings of which are held through a wholly-owned subsidiary of the Company.

The financial years of the Group's associates are coterminous with that of the Group, except for Coastal Greenland which has a financial year ending 31 March.

As at 30 June 2018, the fair value of interests in associates whose shares are listed in Hong Kong was $2,974,819,000 (31 December 2017: $2,870,722,000).

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(Expressed in Hong Kong dollars unless otherwise indicated)

15 Interests in joint ventures

	At 30 June 2018 $'000	At 31 December 2017 $'000
Unlisted (note)	**4,988,009**	4,816,707

Note: The balance includes loans to joint ventures of $1,270,972,000, which 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
Shum King Company Limited ("Shum King")	$2	Hong Kong	50	50	50	Property development and property investment

* 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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16 Financial assets at fair value through profit or loss

On 31 May 2017 and 28 June 2017 and 6 November 2017, the Group entered into investment agreements ("Investment Agreements") with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate"), Hengda Real Estate 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. The Group's equity interest in Hengda Real Estate was subsequently diluted to 1.76% after the capital contributions from other investors on 6 November 2017.

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

16 Financial assets at fair value through profit or loss (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, RMB50 billion and RMB55 billion, respectively. If the net profit of Hengda Real Estate for any financial year in the Performance Undertaking Period is less than the respective 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 balances of financial assets at fair value through profit or loss mainly include financial assets arising from the Investment Agreements. During the Period, there was a decrease in fair value of financial assets at fair value through profit or loss of $1,887,873,000, which was recognised in the consolidated statement of profit or loss.

17 Trade receivables

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

Under normal circumstances, the Group does not grant any credit terms to its customers for the sale of properties. In respect of the remaining trade receivables, the credit terms range from 30 to 120 days from the date of billing. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

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

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18 Cash and cash equivalents and restricted cash

	At 30 June 2018 $'000	At 31 December 2017 $'000
Cash and bank balances	**8,849,892**	10,889,389
Time deposits	**499,029**	2,094,703
	9,348,921	12,984,092
Less: Restricted cash	**(1,415,133)**	(1,817,022)
Cash and cash equivalents	**7,933,788**	11,167,070

19 Interest-bearing bank loans and other borrowings

	At 30 June 2018		At 31 December 2017	
	Effective/ contractual interest rate (%)	$'000	Effective/ contractual interest rate (%)	$'000
Current				
Bank loans – unsecured	**2.60-5.84**	**8,969,124**	2.43-6.33	8,137,680
		8,969,124		8,137,680
Non-current				
Bank loans – secured	**4.90-4.99**	**414,448**	4.90	402,878
Bank loans – unsecured	**2.41-6.33**	**13,727,844**	2.50-6.20	11,371,938
Other borrowings – unsecured (c)	**6.80**	**2,965,250**	6.80	2,990,750
		17,107,542		14,765,566
		26,076,666		22,903,246

19 Interest-bearing bank loans and other borrowings (Continued)

	At 30 June 2018 $'000	At 31 December 2017 $'000
Analysed into:		
Bank loans repayable:		
Within one year	**8,969,124**	8,137,680
In the second year	**5,408,791**	4,612,899
From third to fifth years	**8,635,055**	7,161,917
Over five years	**98,446**	–
	23,111,416	19,912,496
Other borrowings:		
From third to fifth years	**2,965,250**	2,990,750
	26,076,666	22,903,246

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

(i) properties under development with a carrying amount value of approximately $1,154,942,000 (31 December 2017:nil) was used to secure banking facilities amounting to $1,660,540,000, of which $15,005,000 had been drawn down at 30 June 2018 (note 13);

(ii) land and buildings and investment properties in mainland China with net carrying amounts of approximately $693,096,000 and $517,303,000 (31 December 2017: $699,057,000 and $521,752,000) were used to secure banking facilities amounting to $399,443,000, of which $399,443,000 had been drawn down at 30 June 2018 (notes 11 and 12).

In addition, Shum Yip Group, the ultimate holding Company, has guaranteed certain of the Group's bank loans of $2,965,250,000 as at 30 June 2018 (31 December 2017: $2,990,750,000) (note 26(b)).

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19 Interest-bearing bank loans and other borrowings (Continued)

(b) Except for the bank loans equivalent to approximately $5,655,365,000 (31 December 2017: $5,909,123,000) and $7,398,997,000 (31 December 2017: $6,697,097,000), 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 $2,965,250,000) (2017: RMB2,500,000,000 (equivalent to $2,990,750,000)) 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.

20 Trade payables

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

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

21 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.

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21 Share option scheme (Continued)

(a) Share options outstanding at the end of the reporting period

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

	Number of instruments	Exercise price	Vesting date	Expiry date	Contractual life of options
At 30 June 2018					
Batch 1 options granted to directors and employees:					
– on 28 January 2014	3,976,488	2.333	28/01/2016	27/01/2019	5.00
– on 28 January 2014	6,041,938	2.333	28/01/2017	27/01/2019	5.00
– on 28 January 2014	33,813,748	2.333	28/01/2018	27/01/2019	5.00
Batch 2 options granted to directors and employees:					
– on 27 July 2015	700,558	3.010	28/01/2016	27/01/2019	3.50
– on 27 July 2015	1,908,276	3.010	28/01/2017	27/01/2019	3.50
– on 27 July 2015	2,374,544	3.010	28/01/2018	27/01/2019	3.50
Batch 3 options granted to directors and employees:					
– on 14 June 2016	1,795,175	2.873	14/06/2016	27/01/2019	2.62
– on 14 June 2016	1,366,783	2.873	28/01/2017	27/01/2019	2.62
– on 14 June 2016	2,246,143	2.873	28/01/2018	27/01/2019	2.62
Batch 4 options granted to directors and employees:					
– on 20 June 2017	56,664,832	3.436	20/06/2019	19/06/2022	5.00
– on 20 June 2017	42,498,623	3.436	20/06/2020	19/06/2022	5.00
– on 20 June 2017	42,498,623	3.436	20/06/2021	19/06/2022	5.00
Batch 5 options granted to directors and employees					
– on 8 February 2018	8,953,600	3.394	20/06/2019	19/06/2022	4.36
– on 8 February 2018	6,715,200	3.394	20/06/2020	19/06/2022	4.36
– on 8 February 2018	6,715,200	3.394	20/06/2021	19/06/2022	4.36
Total share options outstanding	218,269,731				

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Share option scheme (Continued)

(a) Share options outstanding at the end of the reporting period (Continued)

At the end of the reporting period, the Company had 218,269,731 share options outstanding under the Scheme, representing approximately 2.71% 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 218,269,731 additional ordinary shares of the Company and an increase in share capital of $765,456,000 (before issue expenses).

(b) Share options movement during the period

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

	At 30 June 2018		At 31 December 2017	
	Weighted average exercise price $ per share	**Number of options**	Weighted average exercise price $ per share	Number of options
At 1 January	**3.161**	**196,385,731**	2.905	110,132,343
Granted during the period/year (i)	**3.394**	**22,384,000**	3.500	139,048,000
Exercised during the period/year (ii)	**2.333**	**(500,000)**	2.600	(58,749,763)
Forfeited during the period/year	**–**	**–**	2.501	(9,998,233)
Lapsed during the period/year	**–**	**–**	2.333	(3,157,129)
Cancelled during the period/year	**–**	**–**	3.396	(130,743)
Adjusted during the period/year (iii)	**–**	**–**	–	19,241,256
At 30 June/31 December	**3.186**	**218,269,731**	3.161	196,385,731

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Share option scheme (Continued)

(b) Share options movement during the period (Continued)

(i) The fair value of the share options granted during the Period was $13,154,000 ($0.5876 each). The Group recognised a share option expense of $20,810,000 during the six months ended 30 June 2018 (six months ended 30 June 2017: $3,350,000).

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 ($)	3.3940
Exercise price ($)	3.3940
Dividend yield (%)	5.2147
Volatility (%)	34.3570
Risk-free interest rate (%)	1.703
Expected life of options (year)	1.36-4.36

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

(ii) The subscription rights attaching to 500,000 share options were exercised at the weighted average exercise price of $2.333 per share, resulting in the issue of 500,000 shares for a total cash consideration, before expenses, of $1,167,000. The corresponding amount included in share option reserve of $204,000 was also transferred to share capital upon the exercise of the share options, resulting in a total increase in share capital of $1,371,000.

The weighted average share price at the date of exercise for share options exercised during the Period was $3.500 per share.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Share option scheme (Continued)

(b) Share options movement during the period (Continued)

(iii) The number of unexercised share options and the exercise price may be subject to adjustment in case of alteration in the capital structure of the Company. Pursuant to the announcements dated 18 August 2017 and 20 November 2017, the Company adjusted the exercise price and number of options outstanding with reference to the terms of the Scheme and the supplementary guidance attached to the letter of the Stock Exchange relating to share option schemes dated 5 September 2005. The adjusted number and exercise prices for each batch of share options are presented in note 21(a) above.

22 Capital and reserves

(a) Capital

	At 30 June 2018 $'000	At 31 December 2017 $'000
Issued and fully paid: 8,058,624,983 (31 December 2017: 8,058,124,983) ordinary shares	**19,713,847**	19,712,476

(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 29 to 30.

23 Fair value and fair value hierarchy of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) 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 Management Department headed by the General Manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The Finance Management Department reports directly to the Vice President and the audit committee. At each reporting date, the Finance Management 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 Vice President. 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)

23 Fair value and fair value hierarchy of financial instruments (Continued)

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

(i) Fair value hierarchy (Continued)

Assets:	Fair value measurement as at 30 June 2018 using			
	Unadjusted quoted prices in active markets (Level 1) $'000	Observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Financial assets at fair value through other comprehensive income	–	–	61,737	61,737
Financial assets at fair value through profit or loss (non-current)	32,769	5,467,694	410,257	5,910,720
Financial assets at fair value through profit or loss (current)	3,479	–	–	3,479
	36,248	5,467,694	471,994	5,975,936

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Fair value and fair value hierarchy of financial instruments (Continued)

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

(i) Fair value hierarchy (Continued)

Assets:	Fair value measurement as at 31 December 2017 using			
	Unadjusted quoted prices in active markets (Level 1) $'000	Observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Other financial assets	37,591	7,698,699	70,449	7,806,739
Equity investments at fair value through profit or loss	4,517	–	–	4,517
	42,108	7,698,699	70,449	7,811,256

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 (2017: Nil).

The fair values of financial assets at fair value through profit or loss in level 1 are determined based on quoted market prices.

The fair value of financial assets at fair value through profit or loss in Level 2 is determined using the transaction price in an active market for an identical asset, adjusted for a significant observable input, which is the movement of share price between the transaction date and the measurement date of a comparable listed company that is highly positively correlated to the changes in valuation of that financial assets.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Fair value and fair value hierarchy of financial instruments (Continued)

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

(i) Fair value hierarchy (Continued)

The fair value of financial assets at fair value through profit or loss in level 3 contained the balance which is determined 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 2018, 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 $30,769,000 (31 December 2017: $70,449,000).

The fair value of financial assets at fair value through other comprehensive income in Level 3 is the equity investments which are determined using discounted cash flow forecast method.

(b) 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 2018 and 31 December 2017.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Capital commitments

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

25 Contingent liabilities

As at 30 June 2018, the Group has given guarantees to a maximum extent of approximately $7,122,012,000 (31 December 2017: $6,556,126,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.

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

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

26 Related party transactions

(a) Transactions with related parties

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

Note:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Related party transactions (Continued)

(b) Other transaction with related parties

(i) At 30 June 2018, the Group's interest-bearing bank loans and other borrowings amounting to $2,965,250,000 (31 December 2017: $2,990,750,000) were guaranteed by Shum Yip Group (note 19(a)).

(ii) Shenzhen Shumyip Ming Hong Real Estate Development Co., Ltd ("Minghong"), a subsidiary of the Company, is the principal of a redevelopment project approved by the Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會), redeveloping a community on the land within the project, where Shenzhen Shumyip Xinhongcheng Investment Co., Ltd. ("Xinhongcheng"), a wholly-owned subsidiary of Shum Yip Group, and Hengxing Industrial (Shenzhen) Co., Ltd. ("Hengxing"), held properties.

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

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

26 Related party transactions (Continued)

(c) Commitments with a related party

(i) The Group entered into certain operating lease arrangements with Shum Yip Holdings. The amount of lease expenses for the Period is included in note 26(a) to the interim financial report. The Group expects the total lease expenses in the second half year of 2018 and the years of 2019 to be approximately $5,395,000 and $3,605,000 respectively.

(ii) As disclosed in the announcement dated 14 July 2017, the Group agreed a maximum capital contribution to Shum King Limited of $3,000,000,000 for its development of a piece of land in Hong Kong. As at 30 June 2018, the Group had an outstanding capital commitment to Shum King of $2,032,500,000 (note 24).

(d) Outstanding balances with related parties

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Related party transactions (Continued)

(d) Outstanding balances with related parties (Continued)

The amounts due to related parties presented above include balances amounting to $9,274,753,000 (2017: $ 9,680,705,000) which are interest-bearing. The related interest expenses are presented in note 26(a). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from related parties presented above include balances amounting to $3,580,085,000 (2017: $2,111,053,000) which are interest-bearing. The related interest income are presented in note 26(a). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

(e) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Short term employee benefits	**7,932**	7,885
Post-employment benefits	**1,396**	1,295
Share-based payments	**3,821**	1,009
Total compensation paid to key management personnel	**13,149**	10,189

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9 (see note 3(b)), the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, Leases.

HKFRS 16, Leases

As discussed in the 2017 annual financial statements, 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. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, 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 need to 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.

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2018, 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	1,132,937	11,003,597	12,136,534	0.15
HUANG Wei	Beneficial owner	–	9,941,861	9,941,861	0.12
MOU Yong	Beneficial owner	–	7,190,305	7,190,305	0.09
LIU Chong	Beneficial owner	–	7,188,880	7,188,880	0.09
WU Jiesi	Beneficial owner	3,400,000	–	3,400,000	0.04
LI Wai Keung	Beneficial owner	1,180,880	–	1,180,880	0.01

Note: The percentage was calculated based on 8,058,624,983 Shares in issue as at 30 June 2018.

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 2018, 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 2018, 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

Interest 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	4,965,577,232 *(Note 2)*	–	61.62
Shum Yip Holdings Company Limited ("SYH")	Beneficial owner	4,897,856,631	–	60.78
	Interest in controlled corporation	67,720,601 *(Note 3)*	–	0.84
ALPHA-OMEGA CORPORATION	Beneficial owner	403,855,127	–	5.01

Notes:

1. The percentage was calculated based on 8,058,624,983 Shares in issue as at 30 June 2018.

2. SYG is deemed to be interested in the 4,965,577,232 Shares which SYH is interested in by virtue of SYH being its direct wholly-owned subsidiary.

3. These 67,720,601 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 67,720,601 Shares.

* The English translation is for identification purpose only.

Save as disclosed above, as at 30 June 2018, 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 six months ended 30 June 2018, 22,384,000 options were granted and, 500,000 options were exercised under the Share Option Scheme. As at 30 June 2018, 218,269,731 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 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Directors										
LU Hua	3,146,612	–	–	–	–	–	3,146,612	28/1/2014	28/1/2016-27/1/2019*	2.333
	7,856,985	–	–	–	–	–	7,856,985	20/6/2017	20/6/2019-19/6/2022***	3.436
HUANG Wei	2,478,133	–	–	–	–	–	2,478,133	27/7/2015	28/1/2016-27/1/2019*	3.01
	7,463,728	–	–	–	–	–	7,463,728	20/6/2017	20/6/2019-19/6/2022***	3.436
MOU Yong	1,925,147	–	–	–	–	–	1,925,147	28/1/2014	28/1/2016-27/1/2019*	2.333
	5,265,158	–	–	–	–	–	5,265,158	20/6/2017	20/6/2019-19/6/2022***	3.436
LIU Chong	1,923,722	–	–	–	–	–	1,923,722	28/1/2014	28/1/2016-27/1/2019*	2.333
	5,265,158	–	–	–	–	–	5,265,158	20/6/2017	20/6/2019-19/6/2022***	3.436
	35,324,643	–	–	–	–	–	35,324,643			

Other Information

	Number of share options									
	At 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2018	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Other employees										
In aggregate	37,336,693	–	500,000	–	–	–	36,836,693	28/1/2014	28/1/2016-27/1/2019*	2.333
	2,505,245	–	–	–	–	–	2,505,245	27/7/2015	28/1/2016-27/1/2019*	3.01
	5,408,101	–	–	–	–	–	5,408,101	14/6/2016	14/6/2016-27/1/2019**	2.873
	115,811,049	–	–	–	–	–	115,811,049	20/6/2017	20/6/2019-19/6/2022***	3.436
		22,384,000					22,384,000	8/2/2018	20/6/2019-19/6/2022***	3.394
	161,061,088	22,384,000	500,000	–	–	–	182,945,088			
	196,385,731	22,384,000	500,000	–	–	–	218,269,731			

* 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

Interim Dividend

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

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

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the scrip shares to be issued under the Scrip Dividend Scheme. A circular containing the details of the Scrip Dividend Scheme together with relevant election form will be sent to shareholders on or about Tuesday, 16 October 2018.

Other Information

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 11 September 2018, to Wednesday, 12 September 2018 (both dates inclusive), during which period no transfers of Shares will be registered. To qualify for the interim dividend, all duly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 10 September 2018.

Corporate Governance

The Company has applied the principles and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2018.

Audit Committee

The Audit Committee comprises three independent non-executive directors namely Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar, David. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2018 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 2018 to 30 June 2018.

Update On Directors' Information

Dr. WONG Yau Kar, David stepped down as the Chairman of Protection of Wages on Insolvency Fund Board on 31 March 2018, resigned as an independent non-executive director of Concord New Energy Group Ltd. on 4 June 2018 and stepped down as the Chairman of Land and Development Advisory Committee on 30 June 2018.

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 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 ("3rd Facility") was provided to the Company. The 3rd Facility shall be fully repaid by the Company in three instalments with the last repayment date falling 60 months from the date of the 3rd Facility Agreement.

By an agreement ("4th 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 ("4th Facility") were provided to the Company on the terms and conditions as stated therein. The 4th Facility shall be repaid by the Company in 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 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 ("5th Facility") was provided to the Company. The term of the 5th Facility is 48 months commencing from the date of the 5th Facility Agreement.

On 16 August 2017, the Company as borrower accepted the facility letter ("6th 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) ("6th Facility") offered by a bank as lender. The Company shall repay in full to the lender each borrowing of a portion of the 6th Facility on the date falling 48 months from the date such borrowing is made and all other sums (if any) then owing under the 6th Facility Agreement on the date falling 54 months from the date the lender notifies the Company that the conditions precedent under the 6th Facility Agreement have been complied with.

On 18 August 2017, the Company as borrower accepted the facility letter ("7th Facility Agreement") relating to a term loan facility of up to US$65,000,000 (or its equivalent in Hong Kong dollars) ("7th Facility") offered by a bank as lender. The 7th Facility shall be fully repaid by the Company in three installments with the last repayment date falling 36 months from the acceptance date of the 7th Facility Agreement.

On 6 November 2017, the Company as borrower accepted the facility letter ("8th Facility Agreement) relating to an uncommitted term loan facility of up to US$135,000,000 (or its equivalent in Hong Kong dollars) ("8th Facility") offered by a bank as lender. The last repayment date of the 8th Facility is the day falling 36 months from the acceptance date of the 8th Facility Agreement.

On 18 December 2017, the Company as borrower entered into a facility agreement ("9th Facility Agreement") relating to a transferable term loan facility of up to HK$400,000,000 ("9th Facility") with a bank as lender. The term of the 9th Facility is 48 months commencing from the date of the 9th Facility Agreement.

On 26 February 2018, the Company as borrower accepted the facility letter ("10th Facility Agreement") relating to a term loan facility of up to HK$500,000,000 ("10th Facility") offered by a bank as lender. The last repayment date of the 10th Facility is the day falling 3 years from the acceptance date of the 10th Facility Agreement.

Other Information

On 11 April 2018, the Company as borrower accepted the facility letter ("11th Facility Agreement") relating to a term loan facility of up to HK$1,500,000,000 ("11th Facility") offered by a bank as lender. The term of the 11th Facility is 4 years from the date the first drawdown under the 11th Facility is made.

On 26 June 2018, the Company as borrower entered into a facility agreement ("12th Facility Agreement", together with the 1st Facility Agreement, 2nd Facility Agreement, 3rd Facility Agreement, 4th Facility Agreement, 5th Facility Agreement, 6th Facility Agreement, 7th Facility Agreement, 8th Facility Agreement, 9th Facility Agreement, 10th Facility Agreement and 11th Facility Agreement collectively referred to as the "Facility Agreements") relating to a transferrable term loan facility of up to a principal amount of HK$10,000,000,000 ("12th Facility") offered by certain banks as lenders. The Company shall repay the borrowings under the 12th Facility by five installments with all outstanding amounts under the 12th Facility fully repaid on the date falling 60 months from the date of the 12th 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.

All advances made under the 1st Facility Agreement, 2nd Facility Agreement and 4th Facility Agreement had been fully repaid on 11 July 2018.

深圳控股有限公司
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