瑞安房地產
SHUI ON LAND

Stock Code: 272

PROGRESS DESPITE CHALLENGES
砥礪奮進

Interim Report 2018
二零一八年度中期業績報告

Shui On Land Limited
瑞安房地產有限公司

INNOVATIVE PROPERTY
DEVELOPER IN CHINA

Established in 2004 and listed on The Stock Exchange of Hong Kong (Stock Code: 272) in October 2006, Shui On Land Limited is the Shui On Group's flagship property development company in the Chinese Mainland. Headquartered in Shanghai, Shui On Land has established a solid foundation in the Chinese Mainland and has a proven track record in developing mixed-use, sustainable communities.

Shui On Land develops and operates high-quality residential, office, retail, entertainment and cultural properties in the Chinese Mainland. Shui On Land applies its hallmark approach of master-planning to all projects to ensure that developments are fully consistent with government objectives in economic development and urban planning while simultaneously incorporating local historical and cultural characteristics into our designs and planning. Manifesting the "Total Community" concept, our projects provide a unique environment enabling life enrichment of "Live-Work-Play".

Shui On Land's landbank stood at 8.4 million sq.m. (6.8 million sq.m. of leasable and saleable GFA, and 1.6 million sq.m. of clubhouses, car parking spaces and other facilities). Its nine projects, in various stages of development, are all situated in prime locations within the key cities of Shanghai, Chongqing, Wuhan and Foshan.

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CHAIRMAN'S STATEMENT

Faced with a challenging environment, we have adopted a cautious approach based on our Asset Light Strategy. This continues to show good progress and is allowing us to capture growth opportunities while maintaining a solid financial position.

INTRODUCTION

The Group delivered a set of encouraging results in the first half of 2018 ("1H 2018"), despite the continuation of severe restrictions on residential property sales and purchases in China. Faced with a challenging environment, we have adopted a cautious approach based on our Asset Light Strategy. This continues to show good progress and is allowing us to capture growth opportunities while maintaining a solid financial position. In an important development, together with new partners, we won a landmark new commercial development in Taipingqiao Xintiandi Area in Shanghai, once again highlighting our strong competence and competitive advantage in commercial properties.

FINANCIAL HIGHLIGHTS

For the period under review, the Group's revenue was RMB19,032 million, a significant increase of 87% compared to the RMB10,166 million recorded in the first half of 2017 ("1H 2017").

As a result of the strong revenue growth, profit for the period increased to RMB1,479 million while profit attributable to shareholders grew to RMB1,225 million, a 36% increase compared to RMB898 million in 1H 2017.

Net gearing ratio was 43% as of 30 June 2018, representing a decrease of 8 percentage points from 51% as of 31 December 2017. Cash and bank deposits remained healthy at RMB11,300 million at the end of the period.

HEADWINDS REMAIN

China managed to maintain solid economic growth during the first half of 2018. Nevertheless, government policy in response to President Xi Jinping's statement at the 19th Party Congress last year that "houses are built for living, not for speculation" has continued to affect the country's residential property market. On the one hand, a range of stringent measures remained in place, including restrictions on home purchases and home mortgages as well as the granting of sales permits. This affected sales, especially in the top-tier cities. With prices also capped under price control measures, new developments coming to the market often had to be sold at below secondary market prices. On the other hand, demand for residential property remained strong, lending support to transaction volumes. In the commercial sector, the high level of supply and the continuous transformation of retail by e-commerce are posing a steadily increasing challenge.

STEADY SALES AND RENTAL PERFORMANCE

SALES

Notwithstanding the restrictions on sales, our high-quality residential products were welcomed by the market, with the units launched during the period receiving an overwhelming response. However, the timing of converting subscribed sales into contracted sales was affected by all the restrictive practices adopted.

Accumulated contracted residential property sales for the six months amounted to RMB5,908 million, representing about 50% of our annual sales target for residential property.

In addition to the contracted property sales, as of 30 June 2018, a total GFA of 39,000 square metres ("sq.m."), generating a total value of RMB4,529 million, was subscribed subject to formal sales and purchase agreements. These sales were mainly contributed by the launch in April 2018 of the last batch of units in Lakeville Luxe at Taipingqiao in Shanghai. A total of 385 buyers enrolled in the lottery to purchase the 117 units, showing strong market demand for high-end residential products previously repressed by home purchase restrictions, as well as the attractiveness of this high-quality development.

RENTAL

For our investment properties, we continued to see improvement in both rental levels and the number of visitors.

Rental and related income (excluding income from hotel operations) increased by 5% to RMB948 million in 1H 2018 compared to 1H 2017.

In Shanghai, Xintiandi, which holds a special position in urban renewal in China and as a pioneer in the development of modern commercial premises, has continued to draw big crowds since the visit by President Xi to the adjacent First Congress Hall.

RENEWED VIGOUR FOR OUR COMMERCIAL BRAND AND ASSETS

Since its launch, Shanghai Xintiandi has been a fashionable landmark in China. It is also a significant feature of Taipingqiao, one of the city's pre-eminent historical redevelopment projects. In April this year, the Group announced "Xintiandi" as our revitalised overall retail brand, covering the full range of commercial assets and underlining our expertise in commercial asset management. Under a new theme of "Social Renaissance", Xintiandi will continue to create social destinations where people "meet, grow and engage". This rebranding is giving the market a clear vision of what we stand for and shows how we are successfully responding to the changing needs of the retail market.

In July, the Group announced its new office brand, "INNO". The INNO products, also incorporating the idea of "Social Renaissance", aim to provide total workplace solutions for individuals and companies of all sizes, while creating space full of vitality. The first INNO products, INNO KIC in Yangpu, Shanghai and INNO Zhujiang Lu in Nanjing, will open soon.

Shui On Plaza is also soon to unveil its new face, with the commercial podium, Xintiandi Plaza, scheduled for opening towards the end of the year following the completion of an asset enhancement initiative. Xintiandi Plaza has adopted a "new retail" approach, to create a shopping and social destination specifically designed for the young generation of women, with many first-in-China tenants.

ASSET LIGHT STRATEGY, PARTNERSHIP AND GROWTH

Our Asset Light Strategy continued to progress. We are forming more partnerships to capture promising investment opportunities. As a result, we are recycling our capital and assets into new commercial, office and retail assets, which is sustaining growth. We are also leveraging more fully our strengths in commercial property.

A highlight in this regard is the successful bid by the Group, together with partners, for three commercial land parcels adjacent to our Shanghai Xintiandi, which took place in July this year. The new project is a continuation of our contribution to this development, spanning more than 20 years, and will add further vibrancy to Shanghai's ongoing urban renewal efforts. With a total land area of 34,824.5 sq.m., it is in the vicinity of Middle Huaihai Road, to the east of our existing development. The site will be developed into world class commercial and office spaces, completing an integrated hub of office, commercial and residential properties developed by the Group in the Taipingqiao Area. We take a 25% stake in the joint venture, alongside China Pacific Life Insurance Company Limited, a leading listed integrated insurance group who holds 70%, and Shanghai Yongye Enterprise (Group) Company Limited, a respected property developer whose stake is 5%. The model of the Group developing the project in partnership with other enterprises, with development and management expertise to be provided by us, is a good illustration of how our Asset Light Strategy helps us to grasp exciting opportunities while reducing our capital exposure.

We also continued to leverage the Group's commercial asset management expertise to manage the third party assets. Two commercial projects in Nanjing, in which the Group was granted rights last year to take on the overall project planning, renovation, management and operations, will soon start to generate recurrent management income.

On the other hand, the Group established co-operation with Joy City Group by disposing 49.5% interest of Lots 1 & 7 in Shanghai Rui Hong Xin Cheng project.

The Group's existing partnerships also made good progress. The construction of Wuhan Optics Valley Innovation Tiandi, a 50% owned joint venture in partnership with CITIC Limited, began in March 2018, with pre-sales expected towards the end of 2018. The project features three main areas with distinct themes, namely Innovation Finance, Innovation Pioneer and Innovation Living, and aims to create a unique international centre for innovation and start-ups.

OUTLOOK

The US-China trade tensions will, without a doubt, cloud the world economy, and create great uncertainty for businesses. As regards China's property market, we currently see no sign that the measures taken to control the market are going to be lifted anytime soon, meaning we shall continue to face constraints in our residential property business. In light of the challenging environment, we take a very cautious view on the outlook and shall continue to adopt a very prudent approach in our activities.

Our residential sales target for the year is RMB12 billion, a target we expect to reach after a promising start to the year, subject to being able to gain the required approvals. Later in

Xintiandi Plaza will create a shopping and social destination for the young generation of women

The Group will continue to invest in Taipingqiao Area, furthering its contributions in the region's development

the year, we plan to launch the seventh phase of RHXC in Shanghai, the second phase of La Riva in Wuhan Tiandi and first residential products in Wuhan Optics Valley Innovation Tiandi. We are confident that the market will welcome Wuhan Optics Valley Innovation Tiandi, because it is located in a very prominent area and we will provide the premium facilities the market longs for.

As we move ahead, we will deepen our partnerships with our valued partners, as this is a centrepiece of our Asset Light Strategy, which is enabling us to recycle capital more quickly and target higher returns, as well as to grow with lower capital exposure. This is especially important in the context of a challenging macro-economic environment. We are also making use of this period of change to train our talents and sharpen our expertise. I would like to take the opportunity to welcome Stephanie Lo as our new Executive Director. I believe, she, together with other management, will take the Group to strive for the next phase of growth building upon current solid basis.

THANK YOU

I extend my sincere gratitude to the members of the Board for their wise counsel. I also wish to thank our management and employees, without whom we would not have been able to achieve the results we did. I also wish to thank our business partners for their trust and support. We look forward to working with them to progress our joint projects during the remainder of the year.

Although faced by challenges such as rising interest rates and increasing trade tensions, by maintaining a prudent approach, strengthening our balance sheet and leveraging our partnerships for new opportunities, the Group is well positioned to progress further in the times to come.

Vincent H. S. LO
Chairman

Hong Kong, 27 August, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Significant revenue growth: Revenue for the first half of 2018 ("1H 2018") increased significantly by 87% to RMB19,032 million. RMB2,907 million generated from general property sales and RMB14,981 million from other asset disposal were recognised as revenue. Additionally, rental and related income accounted for another RMB948 million during the period, while hotel, construction and others accounted for RMB196 million.

36% increase in profit attributable to shareholders: As a result of the strong revenue, profit for the period was RMB1,479 million in 1H 2018, compared to RMB1,168 million in the first half of 2017 ("1H 2017"), while profit attributable to shareholders rose 36% to RMB1,225 million in 1H 2018.

Solid balance sheet to weather near term uncertainties: Net gearing ratio was further reduced to 43% as of 30 June 2018, representing a decrease of 8 percentage points from 51% as of 31 December 2017; while cash and bank deposits remained healthy at RMB11,300 million. This solid balance sheet should help the Group to weather any near term global economic uncertainties that may arise, and to seize any attractive investment opportunities.

Asset light strategy making solid progress: The Group continued to carry out its asset light strategy through the disposal of 49.5% effective interest of residential inventory in Lots 1 and 7 in Shanghai Rui Hong Xin Cheng ("RHXC"), which allowed the Group to enhance shareholders' return through unlocking value in these assets at a substantial profit.

A growing prime Shanghai commercial portfolio: In July 2018, the Group along with strategic partners successfully won the land auction for a major commercial site located in the Taipingqiao project. This was one of the largest and most centrally located commercial sites available for sale in Shanghai in recent years. Including this site, the Group owned and held under management a total gross floor area ("GFA") of 1.67 million square metres ("sq.m.") for retail and office use in Shanghai. A total GFA of 733,000 sq.m. was completed and held for long term investment, 73,000 sq.m. was under renovation and expected to be completed in 2H 2018; and a total GFA of 787,000 sq.m. was under development or for future development. Total current asset value of the portfolio is approximately RMB59.4 billion. Asset value attributable to the Group is approximately RMB31.6 billion. 5 Corporate Avenue in Shanghai with a total GFA of 79,000 sq.m. is under the Group's asset management.

"This solid balance sheet should help the Group to weather any near term global economic uncertainties that may arise, and to seize any attractive investment opportunities."

PROPERTY SALES

RECOGNISED PROPERTY SALES

For 1H 2018, total recognised property sales, including property sales recognised as revenue, and disposal of investment properties were RMB17,907 million (after deduction of applicable taxes), representing an increase of 36% compared to RMB13,148 million in 1H 2017.

General property sales (after deduction of applicable taxes) recognised as revenue was RMB2,907 million, on a total GFA sold of 35,050 sq.m.. Average selling price ("ASP") (excluding other asset disposal) increased by 79% to RMB87,000 per sq.m. compared to 1H 2017. The significant increase was mainly due to a higher proportion of property sales was from The Gallery (Lot 2) of Shanghai RHXC, which accounted for 82% of total general property sales. ASP of RHXC residential increased by 20% in 1H 2018 compared to 1H 2017. Gross profit margin of general property sales was 53%, an increase of 14 percentage points compared to 39% in 1H 2017.

RMB14,981 million, also recognised as revenue, was contributed by the disposal of 49.5% effective interest of residential inventory in certain portfolio of properties in relation to Shanghai RHXC Lots 1 and 7. The disposal was accounted for the sales of property inventories in the ordinary course of the Group's property business. Revenue from the sales of properties under development for sale amounted to RMB14,981 million, representing a 99% interest held by the Group. As of 30 June 2018, the equity disposal was completed and the portfolio is held as an associate of the Group.

Rui Hong Xin Cheng • The Gallery

RMB19 million was recognised as disposal of investment properties.

The Group entered into the agreement in relation to the disposal of all of its interest in Dalian Tiandi on 14 November 2017. The transaction was completed in May 2018. The Group no longer holds any interest in Dalian Tiandi.

The table below summarises by project the recognised property sales (stated after the deduction of applicable taxes) for 1H 2018 and 1H 2017:

	1H 2018			1H 2017		
PROJECT	**Sales revenue**	**GFA sold**	**ASP[1]**	Sales revenue	GFA sold	ASP[1]
	RMB' million	**sq.m.**	**RMB per sq.m.**	RMB' million	sq.m.	RMB per sq.m.
Shanghai Taipingqiao						
Residential	**191**	**1,200**	**168,300**	776	5,900	139,200
Shanghai RHXC						
Residential	**2,397**	**25,000**	**101,300**	4,790	60,000	84,600
Retail	**19**	**450**	**44,400**	548	11,700	49,500
Hotel	**–**	**–**	**–**	473	15,500	32,300
Chongqing Tiandi						
Residential[2]	**6**	**570**	**12,800**	20	2,400	10,400
Office & Retail	**135**	**7,200**	**19,900**	90	5,800	16,700
Foshan Lingnan Tiandi						
Townhouses	**14**	**700**	**20,000**	55	2,400	24,200
Low/mid/high-rises	**3**	**300**	**10,000**	7	700	10,000
Retail	**4**	**80**	**62,500**	32	1,000	34,000
SUBTOTAL	**2,769**	**35,500**	**82,400**	**6,791**	**105,400**	**68,200**
Carparks and others	**157**	**–**	**–**	108	–	–
Dalian Tiandi[3]						
Mid-/high-rises	**–**	**–**	**–**	446	51,600	9,200
Villas	**–**	**–**	**–**	47	4,400	11,400
SUBTOTAL	**2,926**	**35,500**	**87,000**	**7,392**	**161,400**	**48,600**
Other asset disposal:						
Shanghai RHXC[4]	**14,981**			–		
Chongqing Tiandi[5]	**–**			5,756		
TOTAL	**17,907**			**13,148**		
Recognised as:						
– property sales in revenue of the Group[6]	**17,888**			9,086		
– disposal of investment properties[6]	**19**			1,021		
– disposal of property, plant and equipment	**–**			21		
– disposal of equity in subsidiaries holding commercial properties[5]	**–**			2,527		
– revenue of associates	**–**			493		
TOTAL	**17,907**			**13,148**		

1 The calculation of ASP per sq.m. is based on gross sales revenue before the deduction of applicable taxes.

2 ASP of Chongqing residential sales is based on net floor area, a common market practice in the region.

3 On 14 November 2017, the Group entered into the agreement in relation to the disposal of its all interest in Dalian Tiandi. The transaction was completed on 14 May 2018 and the Group no longer holds any interest in Dalian Tiandi.

4 On 26 June 2018, the Group entered into the agreement to dispose of 49.5% of the interests in certain portfolio of properties in relation to Shanghai RHXC project Lots 1 and 7 residential inventories. The disposal was accounted for the sales of property inventories in the ordinary course of the Group's property business. Revenue from the sales of properties under development for sale amounted to RMB14,981 million, representing a 99% interest held by the Group.

5 For Chongqing Tiandi, the disposal was partially accounted for the sales of property inventories in the ordinary course of the Group's property business. Revenue from the sales of properties under development for sale amounted to RMB3,229 million, representing a 99% interest held by the Group. The remaining sales of RMB2,527 million represents "Disposal of equity in subsidiaries holding commercial properties".

6 Sales of commercial properties are recognised as "revenue" if the properties concerned are designated for sale prior to the commencement of development. Sales of commercial properties previously designated as held for capital appreciation or rental income are recognised as "disposal of investment properties".

CONTRACTED PROPERTY SALES, OTHER ASSET DISPOSAL AND SUBSCRIBED SALES

The Group's contracted property sales and other asset disposal increased by 61% to RMB13,728 million in 1H 2018, compared to RMB8,530 million in 1H 2017. Residential property sales accounted for 43%, other asset disposal accounted for 56% and the remainder was contributed by commercial property sales. ASP of residential property sales decreased by 31% to RMB29,500 per sq.m. in 1H 2018, compared to RMB42,700 per sq.m. in 1H 2017. It was mainly due to changes in product mix. In 1H 2018, a higher proportion of contracted property sales was generated from Chongqing associates. ASP of the new residential phase launched in Chongqing in 1H 2018 was RMB22,400 per sq.m., an increase of 22%.

Contracted property sales from residential properties and carparks (including those from Chongqing associates) was RMB5,908 million in 1H 2018, an increase of 109% over RMB2,833 million (including those from Dalian associates) in 1H 2017.

The disposal of Dalian Tiandi project for a total contracted amount of RMB3,160 million was completed in May 2018. The disposal was recorded as contracted sales in other asset disposal in 1H 2018.

On 26 June 2018, the Group entered into the agreement to the disposal of 49.5% effective interests in certain portfolio of properties in relation to Shanghai RHXC project Lots 1 & 7 for a total contracted amount of RMB4,589 million. The transaction allowed the Group to unlock value in these assets at a substantial profit and is aligned with the Group's Asset Light Strategy to enhance shareholders' return by cooperating with strategic partners to create synergies.

In addition to the contracted property sales and other asset disposal outlined above, as of 30 June 2018, a total GFA of 39,000 sq.m., producing a total value of RMB4,529 million, was subscribed subject to formal sales and purchase agreements. These sales came primarily from the Shanghai Taipingqiao Lakeville Luxe, which accounted for RMB3,837 million of subscribed sales.

The Club at Lakeville Luxe

The table below provides an analysis by project of contracted sales (stated before the deduction of applicable taxes) for 1H 2018 and 1H 2017:

PROJECT	1H 2018 Contracted amount	1H 2018 GFA sold	1H 2018 ASP	1H 2017 Contracted amount	1H 2017 GFA sold	1H 2017 ASP
	RMB' million	sq.m.	RMB per sq.m.	RMB' million	sq.m.	RMB per sq.m.
Residential property sales:						
Shanghai Taipingqiao						
Lakeville Luxe (Lot 116)	**2,266**	**15,100**	**150,100**	1,048	7,000	149,700
Shanghai RHXC						
Residential	**217**	**2,100**	**103,300**	1,119	11,500	97,300
Chongqing Tiandi						
Residential [1]	**2,547**	**138,500**	**22,400**	3	200	18,300
Foshan Lingnan Tiandi						
Residential	**837**	**44,500**	**18,800**	60	2,800	21,400
Dalian Tiandi [2]						
Villas	**–**	**–**	**–**	34	2,900	11,700
Mid-/high-rises	**–**	**–**	**–**	506	41,900	12,100
Carparks and others	**41**	**–**	**–**	63	–	–
SUBTOTAL FOR RESIDENTIAL PROPERTY SALES	**5,908**	**200,200**	**29,500**	**2,833**	**66,300**	**42,700**
Commercial property sales:						
Shanghai RHXC						
Retail	**20**	**450**	**44,400**	111	2,100	52,900
Lot 3 Hotel	**–**	**–**	**–**	500	15,500	32,300
The Palette 2	**–**	**–**	**–**	579	11,700	49,500
Chongqing Tiandi						
Office	**2**	**100**	**20,000**	58	4,700	12,300
Retail	**36**	**1,300**	**27,700**	192	10,200	18,800
Foshan Lingnan Tiandi						
Retail	**13**	**250**	**52,000**	103	2,200	46,800
Carparks and others	**–**	**–**	**–**	21	–	–
SUBTOTAL FOR COMMERCIAL PROPERTY SALES	**71**	**2,100**	**33,800**	**1,564**	**46,400**	**33,700**
Other asset disposal:						
Dalian Tiandi [2]	**3,160**			–		
Shanghai RHXC [3]	**4,589**			–		
Chongqing Tiandi	**–**			4,133		
SUBTOTAL FOR OTHER ASSET DISPOSAL	**7,749**			**4,133**		
TOTAL	**13,728**			**8,530**		

1 ASP of Chongqing residential sales is based on net floor area, a common market practice in the region. Chongqing Tiandi partnership portfolio is a project developed by associates of the Group. The Group held 19.8% of the partnership portfolio.

2 On 14 November 2017, the Group entered into the agreement in relation to the disposal of its all interest in Dalian Tiandi for a consideration of RMB3,160 million. The transaction was completed on 14 May 2018. The Group no longer holds any interest in Dalian Tiandi.

3 On 26 June 2018, the Group entered into the agreement to the disposal of 49.5% effective interests in certain portfolio of properties in relation to Shanghai RHXC project for a total contracted amount of RMB4,589 million.

RESIDENTIAL GFA AVAILABLE FOR SALE AND PRE-SALE IN 2H 2018

The Group has approximately 203,800 sq.m. of residential GFA spanning six projects, available for sale and pre-sale during 2H 2018, as summarised below: :

PROJECT		Available for sale and pre-sale in 2H 2018		
		GFA in sq.m.	Group's interest %	Attributable GFA in sq.m.
Shanghai Taipingqiao	Lakeville Luxe (Lot 116) (High-rises)	27,400[1]	98.00%	26,900
Shanghai RHXC	High-rises	19,100	99.00%	18,900
Foshan Lingnan Tiandi	Townhouses & Low-rises and High-rises	24,500	100.00%	24,500
Chongqing Tiandi	High-rises	25,400	19.80%	5,000
Wuhan Tiandi	High-rises	28,000	100.00%	28,000
Wuhan Optics Valley Innovation Tiandi	High-rises	79,400	50.00%	39,700
TOTAL		**203,800**		**143,000**

1 A total GFA of 27,400 sq.m. in Shanghai Taipingqiao Lakeville Luxe was shown as available for sale in 2H 2018. Although these properties had been launched for pre-sales in April 2018 with all units subscribed by customers, they are subject to formal sales and purchase agreements. The sales amounted to RMB3,837 million was not counted as Contracted Sales in 1H 2018.

By way of a cautionary note, the actual market launch dates depend on and will be affected by factors such as construction progress, changes in market environments, and changes in government regulations.

PROPERTY DEVELOPMENT PLANS FOR 2H 2018, 2019 AND 2020

The table below summarises the projects with construction work that is planned for completion in 2H 2018, 2019 and 2020:

PROJECT	Residential	Office	Retail	Subtotal	Clubhouse, carpark and other facilities	Total	Group's interest
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	
Planned for delivery in 2H 2018							
Shanghai Taipingqiao							
Xintiandi Plaza (Retail)	–	–	28,000	**28,000**	–	**28,000**	62.49%
INNO KIC	–	41,000	4,000	**45,000**	18,000	**63,000**	100.00%
TOTAL	**–**	**41,000**	**32,000**	**73,000**	**18,000**	**91,000**	
Planned for delivery in 2019							
Chongqing Tiandi	204,000	–	5,000	**209,000**	72,000	**281,000**	19.80%
Foshan Lingnan Tiandi	65,000	–	7,000	**72,000**	23,000	**95,000**	100.00%
Wuhan Optics Valley Innovation Tiandi	120,000	–	1,000	**121,000**	–	**121,000**	50.00%
TOTAL	**389,000**	**–**	**13,000**	**402,000**	**95,000**	**497,000**	
Planned for delivery in 2020							
Shanghai Taipingqiao							
Lot 118	79,000	–	–	**79,000**	33,000	**112,000**	99.00%
Shanghai RHXC							
Lot 1	113,000	–	3,000	**116,000**	49,000	**165,000**	49.50%
Lot 10 Retail	–	–	180,000	**180,000**	–	**180,000**	49.50%
Wuhan Tiandi							
Lot A1 Office Tower	–	160,000	–	**160,000**	26,000	**186,000**	100.00%
Lot B10	108,000	–	–	**108,000**	–	**108,000**	100.00%
Chongqing Tiandi	263,000	–	–	**263,000**	–	**263,000**	19.80%
Foshan Lingnan Tiandi	50,000	–	–	**50,000**	–	**50,000**	100.00%
Wuhan Optics Valley Innovation Tiandi	114,000	–	1,000	**115,000**	–	**115,000**	50.00%
TOTAL	**727,000**	**160,000**	**184,000**	**1,071,000**	**108,000**	**1,179,000**	

By way of a cautionary note, the actual completion date depends on and will be affected by construction progress, changes in the market environments, changes in government regulations and other factors.

THE FOLLOWING SECTION PROVIDES FURTHER DETAILS OF THE DEVELOPMENT PROGRESS AND COMPLETION OF EACH OF THE PROJECTS LOCATED IN SHANGHAI, WUHAN, CHONGQING AND FOSHAN

RESIDENTIAL PROPERTIES UNDER DEVELOPMENT

Shanghai Taipingqiao – Lakeville Luxe (Lot 116) has a total residential apartment GFA of 94,000 sq.m. A total GFA of 47,000 sq.m. was completed and has been progressively delivered to the buyers since December 2016. The remaining portion was launched for pre-sales in April 2018 with all apartments sold on the day of launch for a total amount of RMB6.0 billion. Lot 118 is under development with a total GFA of 79,000 sq.m. for residential use.

Shanghai RHXC – The Gallery (Lot 2), with a total GFA of 24,800 sq.m. was delivered in 1H 2018. The remaining batch with a total GFA of 18,700 sq.m. is scheduled to be launched from 2H 2018. Relocation of Lot 1 was completed in late 2017, with development work commencing in 1H 2018. A total GFA of 113,000 sq.m. will be developed for residential use with the remaining GFA of 3,000 sq.m. for retail shops. Lot 7 with a total GFA of 159,000 sq.m. is under relocation. The site is expected to be cleared in late 2018.

Wuhan Tiandi – Lot B10 is under development and is planned to be developed into high-rise residential apartments with a total GFA of 108,000 sq.m.. Pre-sales is planned to be from 2H 2018.

Wuhan Optics Valley Innovation Tiandi – The site was acquired in 2017. The first phase with a total GFA of 121,000 sq.m. is under development. Pre-sales is planned to be from 2H 2018.

Chongqing Tiandi – The Group sold 79.2% effective interest in the Chongqing Partnership Portfolio in June 2017. Lot B15 with a total GFA of 209,000 sq.m. is under development. Various pre-sales launched in 1H 2018. The Partnership Portfolio is an associate of the Group. The Group held 19.8% of the partnership portfolio.

Foshan Lingnan Tiandi – The Royal (Lots 2 & 3) with a total GFA of 72,000 sq.m. is under construction. Various pre-sales launched in 1H 2018. The apartments are planned to be completed in 2019.

Foshan Lingnan Tiandi blends traditional culture with modern life

COMMERCIAL PROPERTIES UNDER DEVELOPMENT

Shanghai RHXC – Hall of the Sun (Ruihong Tiandi Lot 10) completed relocation in late 2017 and construction work has commenced. It will be developed as a commercial complex with a total GFA of 157,000 sq.m. to be developed into two grade-A office towers and a total GFA of 180,000 sq.m. to be developed into a shopping mall. The development is planned to be completed from 2020 to 2021.

"Shanghai RHXC – Hall of the Sun (Ruihong Tiandi Lot 10) completed relocation in late 2017 and construction work has commenced."

INNO KIC – Two office buildings with a total GFA of 45,000 sq.m. were acquired on a bare shell basis in late 2017. Internal fitting out work was commenced in 1H 2018.

Wuhan Tiandi – Construction work of Lot A1 office building with a total GFA of 160,000 sq.m. was temporary suspended due to changes to certain local planning requirements. The Group is working with the Government to resume the work as soon as possible.

By way of a cautionary note, the actual completion date and launch date depend on and will be affected by construction progress, changes in market environments, changes in government regulations and other factors. The Group plans its project construction in advance while adapting to government policy changes, as well as implemented operational tactics to enhance turnover and increase development efficiency. The Group will nevertheless, adjust the progress of construction, delivery plan and launch schedules, in accordance with the sales conditions of each project, and with respect to the rapid changing market conditions.

INVESTMENT PROPERTY

The carrying value of the completed and under development investment properties at valuation (excluding hotels for operation and self-use properties) with a total GFA of 1,204,000 sq.m. was RMB42,020 million as of 30 June 2018. Of this sum, RMB40 million (representing 0.1% of the carrying value) arose from increased fair value during 1H 2018. The properties located in Shanghai, Wuhan, Foshan and Chongqing, respectively, contributed 69%, 17%, 10% and 4% of the carrying value.

The table below summarises the carrying value of the remaining investment properties at valuation as of 30 June 2018 together with the change in fair value for 1H 2018:

PROJECT	Leasable GFA	Increase /(decrease) in fair value for 1H 2018	Carrying value as of 30 June 2018	Valuation gain/(loss) to carrying value	Attributable carrying value to the Group
	sq.m	RMB'million	RMB'million	%	RMB'million
Completed investment properties at valuation					
Shanghai Taipingqiao					
Shanghai Xintiandi and Xintiandi Style	80,000	9	7,482	0.1%	5,828
Shui On Plaza (Office)	24,000	–	1,892	–	1,212
THE HUB	263,000	(16)	8,908	(0.2%)	6,958
Shanghai KIC	241,000	46	7,537	0.6%	3,470
Wuhan Tiandi	238,000	7	7,095	0.1%	6,685
Chongqing Tiandi	134,000	(28)	1,699	(1.6%)	1,682
Foshan Lingnan Tiandi	151,000	2	4,318	0.1%	4,318
SUBTOTAL	**1,131,000**	**20**	**38,931**	**0.1%**	**30,153**
Investment properties under development at valuation					
Shanghai Taipingiao					
Xintiandi Plaza (Retail)	28,000	1	1,807	0.1%	1,129
INNO KIC	45,000	19	1,282	1.5%	1,282
SUBTOTAL	**73,000**	**20**	**3,089**	**0.7%**	**2,411**
TOTAL	**1,204,000**	**40**	**42,020**	**0.1%**	**32,564**

Note: Hotels for operation and self-use properties are classified as property, plant and equipment in the condensed consolidated statement of financial position, and leasable GFA of which is excluded from this table.

NOVA at Foshan Lingnan Tiandi is committed to becoming the trendiest shopping mall in South China

THE HUB – New landmark in west Shanghai

RENTAL AND RELATED INCOME, OCCUPANCY RATE OF THE INVESTMENT PROPERTIES

The table below provides an analysis of the rental and related income, occupancy rate from investment properties for 1H 2018 and 1H 2017:

PROJECT	Product	Leasable GFA	Rental & related income		Changes	Occupancy rate		Changes
			RMB'million			30 June 2018	30 June 2017	
		sq.m.	1H 2018	1H 2017	%			ppt
Shanghai Taipingqiao								
Shanghai Xintiandi	Office/ Retail	54,000	**200**	198	1%	**100%**	100%	–
Xintiandi Style	Retail	26,000	**46**	43	7%	**99%**	100%	(1ppt)
Shui On Plaza	Office	24,000	**46**	55	(16%)	**96%**	93%	3ppt
THE HUB	Office/ Retail	263,000	**191**	159	20%	**97%**	94%	3ppt
Shanghai RHXC	Retail	–	**–**	70	–	**–**	–	–
Shanghai KIC	Office/ Retail/ Hotel	241,000	**208**	183	14%	**96%**	91%	5ppt
Wuhan Tiandi	Retail	166,000	**128**	102	25%	**89%**	88%	1ppt
Chongqing Tiandi	Retail	134,000	**29**	23	26%	**63%**	57%	6ppt
Foshan Lingnan Tiandi	Office/Retail	151,000	**100**	73	37%	**83%**	75%	8ppt
TOTAL		**1,059,000**	**948**	**906**	**5%**	**89%**	**86%**	**3ppt**
Shanghai RHXC (classified as joint venture income in 1H 2018)	Retail	111,000	**81**	–	–	**92%**	85%	7ppt
GRAND TOTAL		**1,170,000**	**1,029**	**906**	**14%**	**90%**	**85%**	**5ppt**

Note: A total GFA of 16,000 sq.m. located at Shanghai Shui On Plaza, Shanghai KIC and Foshan Lingnan Tiandi were occupied by the Group and were excluded from the above table.

Shanghai Xintiandi provides comfortable social space for people

Rental and related income (excluding income from hotel operations) increased by 5% to RMB948 million in 1H 2018 compared to 1H 2017. The moderate rental income growth in 1H 2018 compared to 1H 2017 was mainly due to the deconsolidation of rental & related income generated from the RHXC commercial partnership portfolio. Indeed, including the rental and related income from RHXC (classified as joint venture income), total rental and related income was RMB1,029 million in 1H 2018, representing a 14% increase compared to 1H 2017.

Xintiandi and Xintiandi Style were fully occupied with stable income growth. The performance of Shui On Plaza in Shanghai was affected by asset enhancement initiative program ("AEI") of the retail podium with 28,000 sq.m. of the leasable GFA under renovation. Rental and related income of the building dropped by 16% in 1H 2018 compared to 1H 2017. The new retail podium, re-named as "Xintiandi Plaza", will be re-positioned for young style, "New Feminism" and trendy brands for young generation, with most of tenants having their first appearance in China. The re-opening is planned to be in late 2018. Upon completion of the AEI of this retail podium, the Group will hold a total leasable GFA of 104,000 sq.m, for retail use in Xintiandi area in Huangpu District, one of the core commercial area of Shanghai. The newly launched commercial brand identity, XINTIANDI with its refreshed visual identity, embarks on a new social strategy with a powerful new mission statement: Social Renaissance, dedicated to promoting conversation, creativity and human connection.

In terms of RHXC, the Group disposed 49.5% of the commercial property portfolio in 2H 2017. The portfolio is held as joint venture of the Group. Rental and related income of RHXC's completed portfolio with a total GFA of 111,000 sq.m. was RMB81 million for 1H 2018, an increase of 16% compared to RMB70 million in 1H 2017.

THE HUB recorded a 20% of rental and related income growth in 1H 2018 compared to 1H 2017. The strong performance was due to an increase of 33% and 52% in shoppers' traffic and retail sales, respectively, in 1H 2018 in THE HUB. A total GFA of 5,400 sq.m. was newly leased or replaced by new tenants with a higher base and turnover rent.

KIC recorded 14% of rental growth with strong rental reversion achieved in the last twelve months. A total GFA of 10,400 sq.m. was leased in 1H 2018 with average rental increased by 12%. 68% of the space was renewal from existing tenants and the remaining new tenants. "University Avenu • Next Stop", the retail space for a total GFA of 5,000 sq.m. connecting metro station Jiangwan Stadium of Line 10 to University Avenue had its opening in late 2017.

Wuhan Xintiandi and HORIZON – South Shopping Mall achieved robust performance with rental and related income growing by 25% to RMB128 million compared to RMB102 million in 1H 2017. The strong performance was due to an increase of 11% and 20% in shoppers' traffic and retail sales, respectively, in 1H 2018 in the HORIZON – South Shopping Mall and strong rental reversion achieved in Wuhan Xintiandi.

HORIZON – North Shopping Mall (Lot B4/5 Retail) is a "Garden Themed Design" shopping mall with a total GFA of 72,000 sq.m. located at Site B of Wuhan Tiandi. It is positioned to create a healthy and green lifestyle for middle class and young families in the neighbourhood. It is currently under pre-leasing for opening in 2019.

Occupancy rate of Chongqing Tiandi was 91% for the Tiandi retail area. Occupancy rate of 6,7 Corporate Avenue retail podium (Lot B12-3 Retail) was 64%. 8 Corporate Avenue retail podium (Lot B12-4 Retail) is under-going a repositioning and tenant upgrade. Re-opening is planned to be in 2019. The rental and related income generated from this reached RMB29 million in 1H 2018, an increase of 26% compared to 1H 2017.

Occupancy levels of NOVA shopping mall at Foshan Lingnan Tiandi reached 99% since its grand opening in December 2016. Lingnan Tiandi Phase 2 was under a small scale asset upgrade in 1H 2018. Occupancy rate of Lingnan Tiandi was at 85%. In 1H 2018, a total GFA of 2,500 sq.m. was leased to 14 new tenants with 3 existing tenant's renewal for the new opening in 2H 2018. The rental and related income generated from these two properties reached RMB100 million in 1H 2018, an increase of 37% compared to 1H 2017 mainly from increased occupancy rate and other income of the NOVA shopping mall.

ASSET LIGHT MODEL AND ASSETS UNDER MANAGEMENT

Beyond the formation of joint ventures for new investments and certain existing projects, the Group also seize opportunities to manage third party assets, in particular to leverage on, and to introduce new asset management services to properties in prime locations that have preservation elements.

These asset management initiatives include Nanjing INNO Zhujiang Lu, which is the first asset light project of the Group applying the INNO office concept which is a "New Office + INNOVATION" concepts. The "New Office" concept aims to provide a variety of new office products and services within a building including INNO Office, INNO Studio and INNO Social. These products will cater to different end-users with very diverse space and lease requirements. "INNOVATION" concept includes INNOSPACE, an incubator for providing services to new ventures. Our first INNOSPACE project has been under operation since 2011 in our KIC Project.

Nanjing INNO Zhujiang Lu has a total GFA of 16,000 sq.m. project under management by the Group, with a 14-year long term lease contract signed with the landlord in December 2017. The property is currently under pre-leasing and will open in 2H 2018.

Nanjing Bai Zi Ting, the Group's second asset light project in Nanjing, has a total GFA of 41,000 sq.m.. The Group entered into a 20-year long term lease contract in December of 2017 to undertake the asset management of the property.

We anticipate securing more asset management projects in the future as the Group further develops the Asset Light Model.

Night view of THE HUB

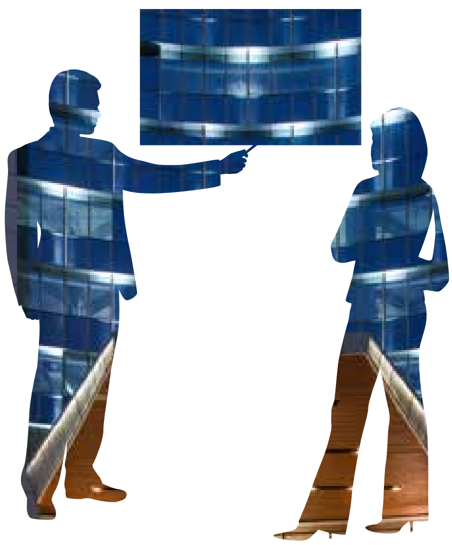
Chongqing Tiandi preserves the unique local architecture – the stilted building

LANDBANK

As of 30 June 2018 the Group's landbank stood at a total GFA of 8.4 million sq.m. (comprising 6.8 million sq.m. of leasable and saleable area, and 1.6 million sq.m. for clubhouses, car parking spaces and other facilities) spread across nine development projects located in the prime areas of four major PRC cities, namely: Shanghai, Wuhan, Chongqing and Foshan. The leasable and saleable GFA attributable to the Group was 4.4 million sq.m.. The disposal of Dalian Tiandi project in May 2018 has resulted in a reduction of 3.2 million sq.m. in the Group's total landbank, as compared to December 2017 level.

Rendering of Wuhan Optics Valley Innovation Tiandi

> **As of 30 June 2018, the Group's landbank stood at a total GFA of 8.4 million sq.m..**



Of the total leasable and saleable GFA of 6.8 million sq.m., approximately 1.4 million sq.m. of GFA was completed, and held for sale and/or investment. Approximately 1.9 million sq.m. of GFA was under development, and the remaining 3.5 million sq.m. of GFA was held for future development.

The relocation of Lots 7 and 167 A and B in Shanghai RHXC is in progress. 99% and 95% of residents in Lot 7 and Lots 167 A and B have signed relocation agreements, respectively, as of 30 June 2018. Lots 7 & 167A will be developed into high-end residential apartments. Lot 167 B will be developed into a commercial complex with office buildings and retail podium. The relocation of these three sites is planned to be completed in 2H 2018 and 2019.

By way of a cautionary note, the actual completion date of the above-mentioned sites depends on and will be affected by changes in government regulations, negotiations with relevant parties and other factors. The above represents the best estimates as of the reporting period.

Ruihong Tiandi • Hall of the Moon has become a new landmark in north Shanghai

The Group's total landbank as of 30 June 2018, including that of its joint ventures and associates, is summarised below:

PROJECT	Approximate/Estimated leasable and saleable GFA: Residential	Office	Retail	Hotel/ serviced apartments	Subtotal	Clubhouse, carpark and other facilities	Total	Group's interest	Attributable leasable and saleable GFA
	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	%	sq.m.
Completed properties:									
Shanghai Taipingqiao	47,000	36,000	76,000	–	**159,000**	80,000	**239,000**	99.00%[1]	128,000
Shanghai RHXC	23,000	–	112,000	–	**135,000**	125,000	**260,000**	99.00%[2]	79,000
Shanghai KIC	–	164,000	63,000	22,000	**249,000**	147,000	**396,000**	44.27%[3]	116,000
THE HUB	–	93,000	170,000	–	**263,000**	72,000	**335,000**	78.11%	205,000
Wuhan Tiandi	–	–	238,000	–	**238,000**	219,000	**457,000**	100.00%[4]	228,000
Chongqing Tiandi	–	–	142,000	–	**142,000**	265,000	**407,000**	99.00%	140,000
Foshan Lingnan Tiandi	4,000	16,000	154,000	43,000	**217,000**	137,000	**354,000**	100.00%	217,000
SUBTOTAL	**74,000**	**309,000**	**955,000**	**65,000**	**1,403,000**	**1,045,000**	**2,448,000**		**1,113,000**
Properties under development:									
Shanghai Taipingqiao	79,000	–	28,000	–	**107,000**	33,000	**140,000**	99.00%[1]	96,000
Shanghai RHXC	271,000	157,000	184,000	–	**612,000**	158,000	**770,000**	49.50%	303,000
Wuhan Tiandi	108,000	160,000	–	–	**268,000**	26,000	**294,000**	100.00%	268,000
Chongqing Tiandi	379,000	259,000	109,000	25,000	**772,000**	186,000	**958,000**	19.80%	153,000
Foshan Lingnan Tiandi	65,000	–	14,000	–	**79,000**	23,000	**102,000**	100.00%	79,000
INNO KIC	–	41,000	4,000	–	**45,000**	18,000	**63,000**	100.00%	45,000
SUBTOTAL	**902,000**	**617,000**	**339,000**	**25,000**	**1,883,000**	**444,000**	**2,327,000**		**944,000**
Properties for future development:									
Shanghai Taipingqiao	86,000	174,000	118,000	38,000	**416,000**	44,000	**460,000**	99.00%[5]	412,000
Shanghai RHXC	83,000	106,000	43,000	–	**232,000**	3,000	**235,000**	49.00%	114,000
Wuhan Tiandi	135,000	166,000	94,000	–	**395,000**	–	**395,000**	100.00%	395,000
Chongqing Tiandi	313,000	–	167,000	–	**480,000**	35,000	**515,000**	19.80%	95,000
Foshan Lingnan Tiandi	78,000	450,000	107,000	80,000	**715,000**	–	**715,000**	100.00%	715,000
Wuhan Optics Valley Innovation Tiandi	444,000	637,000	196,000	–	**1,277,000**	2,000	**1,279,000**	50.00%	638,000
SUBTOTAL	**1,139,000**	**1,533,000**	**725,000**	**118,000**	**3,515,000**	**84,000**	**3,599,000**		**2,369,000**
TOTAL LANDBANK GFA	**2,115,000**	**2,459,000**	**2,019,000**	**208,000**	**6,801,000**	**1,573,000**	**8,374,000**		**4,426,000**

Notes:

1 The Group has a 99.0% interest in all the remaining lots, expect for Shanghai Xintiandi, Xintiandi Style, Shui On Plaza, 15th floor in Shui On Plaza and Lot 116, in which the Group has an effective interest of 78.11%, 77.33%, 62.49%, 78.11% and 98.00%, respectively.

2 The Group has a 99.0% effective interest in all the remaining lots, except for The Palette 3, Hall of the Stars, Hall of the Moon, in which the Group has an effective interest of 49.5%, 49.5% and 49.5%, respectively.

3 The Group has a 44.27% effective interest in all the remaining lots, except for KIC Lot 311 in which the Group has an effective interest of 50.49%.

4 The Group has a 100.0% effective interest in all the remaining lots, except for Wuhan Xintiandi in which the Group has an effective interest of 78.11%.

5 On 5 July 2018, the Group together with CPIC Life and SHYY acquired the land use rights of Lots 123, 124 & 132 with a total leasable GFA of 302,689 sq.m. The Group has an effective interest of 25% in Lots 123, 124 and 132. The remaining Lots 119, 120 & 122 are yet to commence relocation.

MARKET OUTLOOK

The global economy remained resilient in the first half of 2018 despite mounting headwinds, including heightened geopolitical tension in the Middle East and escalation of trade disputes between the US and China. A recent IMF report highlighted a rise in global risks, exacerbated by an increase in US customs duties on steel and aluminum imports and the anticipated trade partners' retaliatory actions. The Trump Administration is trying to overhaul the WTO rules and renegotiate a "fair" trade system under US terms. This negotiation process is likely to be prolonged, and unless participating countries are willing to take a conciliatory stance to avoid a trade war, global GDP growth could fall by 0.5 percent from the current 3.9 percent projected for 2019.

China's economy grew at a slightly faster than expected pace of 6.8% in the first quarter, but slowed to 6.7% in the second quarter under the government's prudent economic policy to contain rising debt risks. With politics taking center stage during a US mid-term election year, the US-China trade disputes looks set to drag on into the third quarter and result in a slowdown of China's trade growth. In response, the People's Bank of China has acted quickly to inject liquidity by lowering banking sector's reserve requirements, and is likely to undertake a more proactive fiscal policy in the second half of the year. The government is also set to continue its reform and opening up policy and fulfill President Xi Boao Forums pledge to improve market access and further reduce import tariffs.

China's foreign exchange reserves fell by US$18.1 billion and US$14.3 billion in April and May respectively, but increased US$1.5 billion in June. After raising the US Federal Funds rate by 25bps in June, the Federal Reserve Board signalled the possibility of two more rate rises before yearend. As a result, the US dollar index strengthened to 95.3 in July, with the US economic data showing marked outperformance over the UK, Europe and Japan. A strengthening dollar has caused capital flight, adversely affecting a number of Latin American and other economies with high external dollar funding needs. The pace of RMB depreciation quickened in June and lost around 4% of its value as of the end of July. The PBOC anticipates a widening range of exchange rate fluctuations for the remainder of the year.

KIC offers pleasant work environment for customers

Wuhan Tiandi has matured with a mixture of commercial, office and residential elements

Residential market transactions grew steadily in 1H 2018 despite the continuation of purchase control policies in the major cities. National housing transactions in the first six months registered respective year-on-year increases of 3.2% and 14.8% by area and by sales value. Real estate investment for the six months increased at a slower pace of 9.5% year-on-year, compared with a 10.4% rise in the first quarter. China's new home prices accelerated in June, with buying demand remaining strong. Twelve cities, including Xi'an, Haikou, Sanya, Changchun, Harbin, Kunming, Dalian, Guiyang, Xuzhou, Foshan, Chengdu and Taiyuan, were named and asked by the Ministry of Housing and Urban-Rural Development to rein in their fast-rising property prices.

The tempo of Shanghai's economic growth momentum picked up from 6.8% in 1Q to 6.9% in 1H 2018, helped by a strong performance of its internet-related economy and logistics sector. According to Shanghai Master Plan 2017-2035, the municipality is aiming to become an excellent global city through enhancement of its growth quality and efficiency. The government intends to expedite the transformation and upgrading of its economy and to develop "Shanghai Services, Shanghai Manufacturing, Shanghai Shopping and Shanghai Culture" as the city's four brands.

Chongqing is undergoing economic transformation and industrial restructuring towards a high-quality growth model. In 1H 2018 Chongqing's GDP growth slowed to 6.5% as its secondary industry growth pace decelerated. While industrial value added growth fell to 1.8% in the first half, its strategic new industries continued to expand rapidly by 18.3%. Meanwhile, helped by the "Belt and Road" initiative, Chongqing has become a more open economy through entering into strategic cooperation with Singapore, Russia and Belarus.

Foshan Lingnan Tiandi has become a favourite destination for residents and guests

THE HUB has become many passengers' first stop in Shanghai

Wuhan's economic growth remained robust at 8.2% in the first half of 2018, with FDI and tertiary industry growth rising by 24.1% and 8.8% year-on-year, respectively. According to Wuhan's National Central City Implementation Plan, the city's GDP is projected to reach RMB2 trillion by 2021. The government intends to retain 250,000 university graduates this year through an incentive scheme which offers 20% home purchase discount for university graduates. This policy should help accelerate talent inflow and render support for the housing market.

Foshan's economy maintained a rapid growth rate of 7.0% in the first half of 2018. The city invested heavily in research and development, with R&D's share in GDP rising from 2.3% in 2016 to 2.6% in 2017. Foshan plans to invest RMB5.5 billion towards developing an Advanced Manufacturing Science and Technology Lab. In addition, Gaoming District has been selected to house the Pearl River Delta Xinganxian Airport to meet the Greater Bay Area's future air travel demand. This new airport will complement Guangzhou Baiyun Airport to serve domestic and international passengers as well as air cargo demand from central and western Pearl River Delta.

As the global economy advances into a late cycle expansion phase, the outlook is becoming less certain, and risks are mounting. The pace of economic growth has widened across different economies under rising interest rates, heightened geopolitical risks and the threat of growing trade disputes. These uncertainties are eroding business confidence and will cloud the economic outlook. The Chinese government aims to maintain GDP growth of around 6.5% this year and has the policy means to cushion the economy from the headwinds. With respect to the property market, we expect various government measures such as price controls, restrictions on home purchases and granting of sales permit will continue to apply, hence the pace of residential sales in 2H 2018 should stay modest. We will continue to monitor these changing trends and will quickly adapt our plans to cope with the unfolding scenarios.

FINANCIAL REVIEW

The Group's *revenue* for the six months ended 30 June 2018 ("1H 2018") increased by 87% to RMB19,032 million (1H 2017: RMB10,166 million), mainly due to a significant increase in recognised property sales for the period.

Property sales in 1H 2018 increased by 97% to RMB17,888 million (1H 2017: RMB9,086 million) as a result of increased property deliveries, especially for the Shanghai RHXC project. Property sales of Shanghai RHXC increased to RMB17,382 million in 1H 2018 (1H 2017: RMB4,795 million), which accounted for over 97% of 1H 2018 property sales. RHXC property sales include general property sales of The Gallery (Lot 2) and also a 49.5% interest disposal of RHXC Lots 1 and 7 residential developments to Joy City Limited, a listed company on the Hong Kong Stock Exchange. Property sales in 1H 2017 consisted mainly of the RHXC and Chongqing projects, which accounted for RMB4,795 million and RMB3,350 million respectively. Details of 1H 2018 property sales are in the paragraph titled "Property Sales" in the Business Review Section.

Income from property investment increased to RMB996 million (1H 2017: RMB946 million). *Rental and related income* from investment properties in 1H 2018 increased to RMB948 million (1H 2017: RMB906 million), mainly due to continued rental growth from the existing completed properties, which offsets a decrease in rental income from the RHXC commercial partnership portfolio. The Group had sold 49.5% interest in RHXC commercial partnership portfolio at the end of 2017 and the related rental income from RHXC commercial partnership portfolio has accordingly been classified as interests in joint venture since January 2018. *Income from hotel operations*, comprising contributions from the Marco Polo Hotel in Foshan, increased to RMB48 million in 1H 2018 (1H 2017: RMB40 million). The hotel business has continuously improved as a result of the opening of Foshan Lingnan Tiandi and NOVA. Details of the business performance of investment properties are in the paragraph titled "Investment Property" in the Business Review Section.

Construction income generated by the construction business decreased to RMB48 million in 1H 2018 (1H 2017: RMB107 million).

Gross profit in 1H 2018 increased significantly by 17% to RMB5,171 million (1H 2017: RMB4,418 million), while gross profit margin decreased to 27% (1H 2017: 43%). The lower gross profit margin was mainly due to lower margins arising from the 49.5% interest disposal of RHXC Lots 1 and 7 residential developments which accounted for 84% of the Group's property sales in 1H 2018. Excluding the 49.5% interest disposal of RHXC Lots 1 and 7 residential developments, both gross profit margin of general property sales and property investment in 1H 2018 would have reflected an improvement. Gross profit contributions from property investment rose further to RMB752 million in 1H 2018 (1H 2017: RMB679 million), while gross profit margin 4 percentage points higher at 76% (1H 2017: 72%).

Other income decreased 30% to RMB145 million (1H 2017: RMB206 million), which comprised interest income and government grants.

Selling and marketing expenses increased marginally by 2% to RMB145 million (1H 2017: RMB142 million), mainly due to an increase in contracted property sales achieved by the Group (excluding sales by associates) by 40% to RMB11,181 million (1H 2017: RMB7,990 million).

General and administrative expenses, which comprises staff costs, depreciation charges and advisory costs incurred, increased by 5% to RMB442 million (1H 2017: RMB421 million).

As a result of the above, *operating profit* increased 16% to RMB4,729 million in 1H 2018 (1H 2017: RMB4,061 million).

"The Group's revenue for the six months ended 30 June 2018 increased by 87% to RMB19,032 million."

Foshan Lingnan Tiandi provides quality leisure and living space for customers

Net increase in fair value of the remaining investment properties decreased 81% to report a gain of RMB40 million (1H 2017: RMB207 million), of which RMB20 million gain (1H 2017: RMB174 million) was contributed by completed investment properties and RMB20 million gain (1H 2017: RMB33 million) from investment properties under construction or development. The increase in fair value of the remaining investment properties in 1H 2018 represented a 0.1% gain compared with the value of investment properties as of 30 June 2018. The paragraph titled "Investment Property" in the Business Review Section provides detailed descriptions of these properties.

Other gains and losses amounted to a loss of RMB505 million (1H 2017: a loss of RMB8 million), of which RMB380 million (1H 2017: Nil) was in relation to a provision of commercial lands costs in Foshan Lingnan Tiandi, and RMB78 million was due to the early redemption of senior notes (1H 2017: RMB67 million). The Group reviewed the remaining commercial lands development of Foshan Lingnan Tiandi and determined a provision amounting to RMB380 million for the undeveloped lands of Foshan Lots A/B/C as a result of Foshan's sluggish office market.

Share of losses of joint ventures and associates was RMB4 million in 1H 2018 (1H 2017: RMB251 million). The significant decrease in losses was mainly due to the sale of the Group's entire interest in the Dalian Tiandi project and there is no additional operating loss in the 1H 2018. The disposal of the Dalian Tiandi project was completed in May 2018.

Finance costs, inclusive of exchange differences, amounted to RMB997 million (1H 2017: RMB1,004 million). Total interest costs decreased to RMB1,332 million (1H 2017: RMB1,733 million), due mainly to the repayment of bank borrowings and senior notes since 2H 2017. However, of these interest costs, 34% (1H 2017: 42%) or RMB454 million (1H 2017: RMB724 million) was capitalised as cost of property development, with the remaining 66% (1H 2017: 58%) of interest costs relating to mortgage loans on completed properties and borrowings for general working capital purposes accounted for as expenses. For 1H 2018, the percentage of capitalised interest of the Group's borrowings decreased, and the expense ratio increased as compared with the corresponding period. This is due to interest costs ceasing to be capitalised upon completion of the properties. Exchange loss of RMB86 million (1H 2017: gain of RMB31 million) was recorded as a result of the depreciation of the RMB against the HKD and the USD in 1H 2018.

Impairment losses, net of reversal, amounted to RMB183 million (1H 2017: Nil), of which RMB180 million was a provision for a receivable relating to the companies disposed to a purchaser in 2016. The Group is still working with the purchaser and the Government to sort out the some land issues under the companies the Group had disposed to the purchaser in 2016. According to the agreement, the purchaser will provide payment to the Group once the land issues have been resolved. As the completion timing in relation to the aforesaid is not certain, a provision amounting to RMB180 million for this receivable has been made for 1H 2018.

Profit before taxation increased by 2% to RMB3,080 million (1H 2017: RMB3,024 million). The increase in profit before taxation is primarily due to higher general property sales, 49.5% interest disposal of RHXC Lots 1 and 7 residential developments and other factors mentioned above.

Taxation decreased 14% to RMB1,601 million (1H 2017: RMB1,856 million). The effective tax rate in 1H 2018 was 51.98% (1H 2017: 61.38%). PRC Enterprise Income Tax has been provided for at the applicable income tax rate of 25% on the assessable profits during the period. Land appreciation tax was levied at progressing rates ranging from 30 percent to 60 percent on the appreciation value, being the proceeds of properties sales less deductible expenditure including costs of land, development and construction. The lower tax rate was mainly resulted from PRC land appreciation tax decreasing 48% to RMB505 million (2017 1H: RMB972 million); and higher non-deductible losses from joint ventures and associates were incurred in 1H 2017.

Profit in 1H 2018 was RMB1,479 million (1H 2017: RMB1,168 million).

Profit attributable to shareholders of the Company in 1H 2018 was RMB1,225 million, an increase of 36% compared to the corresponding period (1H 2017: RMB898 million).

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Core earnings of the Group are as follows:

	Six months ended 30 June		
	2018 RMB'million	2017 RMB'million	Change %
Profit attributable to shareholders of the Company	**1,225**	898	36%
Net increase in fair value of the remaining investment properties	**(40)**	(207)	
Effect of corresponding deferred tax charges	**10**	52	
Realised fair value gains from investment properties disposed of	**6**	113	
Realised bargain purchase gain from acquisition of subsidiaries	**8**	119	
Impairment loss on investment properties under development at cost	**380**	–	
Share of results of associates – realised fair value gains from investment properties disposed of /fair value losses of investment properties, net of tax	**374**	276	
Share of results of joint ventures – fair value gains of investment properties, net of tax	**(23)**	–	
	715	353	103%
Non-controlling interests	**18**	(4)	
Net effect of changes in the valuation	**733**	349	110%
Profit attributable to shareholders of the Company before revaluation	**1,958**	1,247	57%
Add:			
Profit attributable to owners of convertible perpetual capital securities	**54**	58	(7%)
Profit attributable to owners of perpetual capital securities	**125**	182	(31%)
Core earnings of the Group	**2,137**	1,487	44%

Earnings per share was RMB15.2 cents, which was calculated based on a weighted average of approximately 8,043 million shares in issue in 1H 2018 (1H 2017: RMB11.2 cents, which was calculated based on a weighted average of approximately 8,002 million shares in issue).

Dividends payable to shareholders of the Company have to comply with certain covenants under the senior notes and perpetual capital securities as follows:

- Dividends payable to the shareholders of the Company (together with any redemption, repurchase or acquisition of the Company's shares) should not exceed 40% of the Company's consolidated profit for the two most recent semi-annual periods prior to payment of the dividend, unless certain conditions pursuant to the terms of the senior notes have been met.
- In the case where the Company opts to defer the payment of coupons to the owners of perpetual capital securities, no dividend payments should be made to the shareholders of the Company unless all coupons deferred have been paid in full.

Having taken into consideration that the Group's financial position and improved cashflow, the Board has resolved to recommend the payment of a 2018 interim dividend of HKD0.036 per share (1H 2017: HKD0.03 per share).

MAJOR ACQUISITION AND DISPOSAL

The Group has pursued an asset light strategy to dispose its assets to increase asset turnover over the past few years. 1H 2018, the Group sold 49.5% effective interest in its residential property development in Shanghai RHXC and also forged partnerships with strategic partners to acquire a commercial land in Shanghai Taipingqiao.

The details are as follows:

1) In June 2018, the Group entered into an agreement with Joy City Limited, a listed company in Hong Kong to sell 49.5% interest in the Shanghai RHXC Residential Partnership Portfolio (i.e. Lots 1 and 7) for a consideration of around RMB4,623 million. The Group and Joy City Limited will cooperate to develop this residential partnership portfolio. For details pertaining to the disposal of the Shanghai RHXC Residential Partnership Portfolio, please refer to the Company's circular dated 18 July 2018.

2) In July 2018, the Group entered into an agreement with two parties (i.e. China Pacific Life Insurance Company Limited and Shanghai Yongye Enterprise (Group) Company Limited) which resulted in the Group owning a 25% interest in Shanghai Taipingqiao Lots 123,124 and 132. The investment is approximately RMB19.5 billion which includes land costs amounted to RMB13.61 billion. For details, please refer to the circular issued by the Company dated 26 July 2018.

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LIQUIDITY, CAPITAL STRUCTURE AND GEARING RATIO

Up to the date of this report, the Group has arranged two repayment/redemption and one new issuance of senior notes. The purpose of refinancing and redemption is to take advantage of the lower finance costs and to extend the maturity of senior notes. The details are as follows:

1) In December 2017 and January 2018, the Group has fully redeemed senior notes with principal amount of USD550 million due 2019 at a yield of 9.625% per annum with a redemption price equal to 104.813% of the total amount plus the accrued and unpaid interest. The total amount for such redemption is equivalent to RMB3,810 million.

2) In March and April 2018, the Group issued an aggregate principal amount of RMB2,200 million senior notes due 2021 at a yield of 6.875% per annum.

3) In May 2018, the Group has fully repaid an aggregate principal amount of USD637 million senior notes at a yield of 8.7% per annum.

The structure of the Group's borrowings as of 30 June 2018 is summarised below:

	Total (in RMB equivalent) RMB'million	Due within one year RMB'million	Due in more than one year but not exceeding two years RMB'million	Due in more than two years but not exceeding five years RMB'million	Due in more than five years RMB'million
Bank borrowings – RMB	12,596	3,170	3,721	2,084	3,621
Bank borrowings – HKD	4,689	3,023	1,371	295	–
Bank borrowings – USD	8,283	3,357	2,451	2,475	–
Senior notes – USD	4,999	–	1,657	3,342	–
Senior notes – RMB	2,224	–	–	2,224	–
TOTAL	**32,791**	**9,550**	**9,200**	**10,420**	**3,621**

Total cash and bank deposits amounted to RMB11,300 million as of 30 June 2018 (31 December 2017: RMB16,760 million), which included RMB1,294 million (31 December 2017: RMB2,153 million) of deposits pledged to banks and RMB1,341 million (31 December 2017: RMB1,013 million) of restricted bank deposits which can only be applied to designated property development projects of the Group.

As of 30 June 2018, the Group's net debt was RMB21,491 million (31 December 2017: RMB24,939 million) and its total equity was RMB50,002 million (31 December 2017: RMB49,175 million). The Group's net gearing ratio was 43% as of 30 June 2018 (31 December 2017: 51%), calculated based on the excess of the sum of senior notes, bank borrowings net of bank balances and cash (including pledged bank deposits and restricted bank deposits) over the total equity.

As of 30 June 2018, HKD/USD borrowings including senior notes (unhedged) amounted to approximately RMB11,516 million in equivalent, which is around 35% of the total borrowings (31 December 2017: 27%).

Total undrawn banking facilities available to the Group amounted to approximately RMB2,376 million as of 30 June 2018 (31 December 2017: RMB2,380 million).

PLEDGED ASSETS

As of 30 June 2018, the Group had pledged investment properties, property, plant and equipment, prepaid lease payments, properties under development for sale, properties held for sale, accounts receivable and bank deposits totalling RMB36,370 million (31 December 2017: RMB44,741 million) to secure the Group's borrowings of RMB10,483 million (31 December 2017: RMB18,304 million).

CAPITAL AND OTHER DEVELOPMENT RELATED COMMITMENTS

As of 30 June 2018, the Group had contracted commitments for development costs and capital expenditure in the amount of RMB2,571 million (31 December 2017: RMB2,750 million).

CASH FLOW MANAGEMENT AND LIQUIDITY RISK

Management of cash flow is the responsibility of the Group's treasury function at the corporate level.

The Group's commitment is to maintain a balance between continuity of funding and flexibility through a combination of internal resources, bank borrowings and debt financing, as appropriate. The present financial and liquidity position enables the Group to maintain a reasonable liquidity buffer so that sufficient funds are available to meet liquidity requirements at all times.

Wuhan Tiandi has become a characteristic urban complex

EXCHANGE RATE AND INTEREST RATE RISKS

The revenue of the Group is denominated in RMB. The RMB senior notes issued in 2018 are also denominated in RMB. Thus, the coupon payments and repayment of the principal amounts of the senior notes issued in 2018 do not expose the Group to any exchange rate risk.

However, a portion of the revenue is converted into other currencies to meet our foreign-currency-denominated debt obligations, such as bank borrowings denominated in HKD and USD, and senior notes and CPCS denominated in USD issued from 2015 to 1H 2018. Thus, to the extent that the Group has a net currency exposure, there is exposure to fluctuations in foreign exchange rates. As of 30 June 2018, the Group has entered approximately USD807 million forward to hedge the USD currency risk against RMB and HKD1,323 million forward to hedge the HKD currency risk against RMB. In addition, from 1 July 2018 till today, the Group has further entered USD50 million forward to hedge the USD currency risk against RMB.

The Group's exposure to interest rate risk results from fluctuations in interest rates. Most of the Group's bank borrowings consist of variable rate debt obligations with original maturities ranging from two to six years for project construction loans, and two to fifteen years for mortgage loans. Increases in interest rates would raise interest expenses relating to the outstanding variable rate borrowings and cost of new debt. Fluctuations in interest rates may also lead to significant fluctuations in the fair value of the debt obligations.

Save for disclosed above, as of 30 June 2018, the Group does not hold any other derivative financial instruments that are linked to exchange rates or interest rates. The Group continues to closely monitor its exposure to exchange rate and interest rate risks, and may employ derivative financial instruments to hedge against risk if necessary.

CONTINGENT LIABILITIES

Temporary guarantees are provided to banks with respect to mortgage loans procured by some purchasers of the Group's properties. Such guarantees will be released by banks upon the issuance of the real estate ownership certificate to the purchasers or the repayment of mortgage loan by the purchasers, whichever is earlier. In the opinion of the Board, the fair value of these financial guarantee contracts is insignificant.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF SHUI ON LAND LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Shui On Land Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 71, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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.

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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

27 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Six months ended 30 June 2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Turnover			
– The Company and its subsidiaries (the "Group")		19,032	10,166
– Share of joint ventures		40	–
		19,072	10,166
Revenue of the Group	3	19,032	10,166
Cost of sales		(13,861)	(5,748)
Gross profit		5,171	4,418
Other income		145	206
Selling and marketing expenses		(145)	(142)
General and administrative expenses		(442)	(421)
Operating profit	4	4,729	4,061
Gain on disposal of investment properties through disposal of subsidiaries	20(c),(d)	–	19
Net increase in fair value of the remaining investment properties	10	40	207
Other gains and losses	5	(505)	(8)
Share of losses of joint ventures and associates		(4)	(251)
Finance costs, inclusive of exchange differences	6	(997)	(1,004)
Impairment losses, net of reversal	12	(183)	–
Profit before taxation		3,080	3,024
Taxation	7	(1,601)	(1,856)
Profit for the period		1,479	1,168
Attributable to:			
Shareholders of the Company		1,225	898
Owners of convertible perpetual capital securities		54	58
Owners of perpetual capital securities		125	182
Non-controlling shareholders of subsidiaries		75	30
		254	270
		1,479	1,168
Earnings per share	9		
– Basic		RMB15.2 cents	RMB11.2 cents
– Diluted		RMB14.8 cents	RMB11.1 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Profit for the period	1,479	1,168
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	3	31
Fair value adjustments on currency forward contracts designated as cash flow hedges	301	(512)
Reclassification from hedge reserve to profit or loss arising from currency forward contracts	(320)	311
Items that will not be reclassified subsequently to profit or loss:		
Gain on revaluation of properties transferred from property, plant and equipment to investment properties, net of tax	8	–
Share of other comprehensive income of a joint venture	30	–
Other comprehensive income (expense) for the period	22	(170)
Total comprehensive income for the period	1,501	998
Total comprehensive income attributable to:		
Shareholders of the Company	1,247	728
Owners of convertible perpetual capital securities	54	58
Owners of perpetual capital securities	125	182
Non-controlling shareholders of subsidiaries	75	30
	254	270
	1,501	998

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2018

	NOTES	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Non-current assets			
Investment properties	10	49,088	47,989
Property, plant and equipment		1,108	1,187
Interests in associates	11	5,014	1,030
Interests in joint ventures	14	6,127	6,584
Accounts receivable, deposits and prepayments	12	353	1,088
Pledged bank deposits		668	2,134
Derivative financial instruments	18	340	342
Deferred tax assets		1,125	992
Other non-current assets		41	42
		63,864	61,388
Current assets			
Properties under development for sale		12,166	18,112
Properties held for sale		7,304	8,058
Accounts receivable, deposits and prepayments	12	9,321	7,520
Amounts due from related companies		634	642
Loan to an associate	11	1,260	–
Loans to/amounts due from joint ventures	14	832	660
Contract assets	13	110	–
Amounts due from customers for contract work		–	126
Derivative financial instruments	18	87	–
Pledged bank deposits		626	19
Bank balances and cash		10,006	14,607
		42,346	49,744
Assets classified as held for sale	20(e)	–	3,160
		42,346	52,904
Current liabilities			
Accounts payable, deposits received and accrued charges	15	7,330	10,369
Contract liabilities		3,184	–
Amounts due to related companies		345	347
Amounts due to non-controlling shareholders of subsidiaries		9	8
Loans from a non-controlling shareholder of subsidiaries		1,680	1,651
Tax liabilities		3,346	3,443
Bank borrowings – due within one year		9,550	9,596
Senior notes	16	–	5,781
Derivative financial instruments	18	–	214
Liabilities arising from rental guarantee arrangements	17	170	177
		25,614	31,586
Liabilities associated with assets classified as held for sale		–	8
		25,614	31,594
Net current assets		16,732	21,310
Total assets less current liabilities		80,596	82,698

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2018

	NOTES	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Capital and reserves			
Share capital		146	146
Reserves		38,901	38,136
Equity attributable to shareholders of the Company		39,047	38,282
Convertible perpetual securities		1	1
Convertible perpetual capital securities		1,346	1,345
Perpetual capital securities	21	4,054	4,052
Non-controlling shareholders of subsidiaries		5,554	5,495
		10,955	10,893
Total equity		50,002	49,175
Non-current liabilities			
Bank borrowings – due after one year		16,018	21,397
Senior notes	16	7,223	4,925
Liabilities arising from rental guarantee arrangements	17	388	551
Deferred tax liabilities		6,960	6,645
Defined benefit liabilities		5	5
		30,594	33,523
Total equity and non-current liabilities		80,596	82,698

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to shareholders of the Company							
	Share capital RMB'million	Share premium RMB'million	Merger reserve RMB'million	Special reserve RMB'million	Share option reserve RMB'million	Share award reserve RMB'million	Exchange reserve RMB'million	Hedge reserve RMB'million
At 31 December 2017 (audited)	146	18,076	122	(135)	13	24	(161)	(38)
Adjustments (see note 2.2.2)	–	–	–	–	–	–	–	–
At 1 January 2018 (restated)	146	18,076	122	(135)	13	24	(161)	(38)
Profit for the period	–	–	–	–	–	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	3	–
Reclassification from hedge reserve to profit or loss arising from currency forward contracts	–	–	–	–	–	–	–	(320)
Fair value adjustments on currency forward contracts designated as cash flow hedges	–	–	–	–	–	–	–	301
Gain on revaluation of properties transferred from property, plant and equipment to completed investment properties	–	–	–	–	–	–	–	–
Deferred tax arising from gain on revaluation of properties transferred from property, plant and equipment to completed investment properties	–	–	–	–	–	–	–	–
Share of other comprehensive income of a joint venture	–	–	–	–	–	–	30	–
Total comprehensive income (expense) for the period	–	–	–	–	–	–	33	(19)
Recognition of equity-settled share-based payment expenses (note 19)	–	–	–	–	1	–	–	–
Exercise of share option (note 19)	–	2	–	–	–	–	–	–
Partially disposal of subsidiaries without losing control	–	–	–	–	–	–	–	–
Disposal of subsidiaries (note 20(a))	–	–	–	–	–	–	–	–
Lapse of share awards and share options	–	–	–	–	(2)	(14)	–	–
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–
2017 final dividend of HK$0.07 per share	–	–	–	–	–	–	–	–
Distribution to owners of perpetual capital securities	–	–	–	–	–	–	–	–
Distribution to owners of convertible perpetual capital securities	–	–	–	–	–	–	–	–
At 30 June 2018 (unaudited)	146	18,078	122	(135)	12	10	(128)	(57)
At 1 January 2017 (audited)	145	18,020	122	(135)	39	17	(167)	122
Profit for the period	–	–	–	–	–	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	31	–
Reclassification from hedge reserve to profit or loss arising from currency forward contracts	–	–	–	–	–	–	–	311
Fair value adjustments on currency forward contracts designated as cash flow hedges	–	–	–	–	–	–	–	(512)
Total comprehensive income (expense) for the period	–	–	–	–	–	–	31	(201)
Recognition of equity-settled share-based payment expenses (note 19)	–	–	–	–	1	–	–	–
Gain on revaluation of properties transferred from property, plant and equipment to investment properties	–	–	–	–	–	–	–	–
Deferred tax arising from gain on revaluation of properties transferred from property, plant and equipment to investment properties	–	–	–	–	–	–	–	–
Disposal of equity interest in a subsidiary (note 20(c))	–	–	–	–	–	–	–	–
Distribution to owners of convertible perpetual capital securities	–	–	–	–	–	–	–	–
Distribution to owners of perpetual capital securities	–	–	–	–	–	–	–	–
Lapse of share options	–	–	–	–	(22)	–	–	–
Recognition of equity-settled share-based payment expenses under the share award scheme	–	–	–	–	–	6	–	–
Issue of perpetual capital securities	–	–	–	–	–	–	–	–
Expense on issue of perpetual capital securities	–	–	–	–	–	–	–	–
Dividends approved in respect of previous year	–	–	–	–	–	–	–	–
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–
Capital injection	–	–	–	–	–	–	–	–
At 30 June 2017 (unaudited)	145	18,020	122	(135)	18	23	(136)	(79)

Attributable to shareholders of the Company									
Other reserves RMB'million	Property revaluation reserves RMB'million	Retained earnings RMB'million	Sub-total RMB'million	Convertible perpetual securities RMB'million	Convertible perpetual capital securities RMB'million	Perpetual capital securities RMB'million (Note 21)	Non-controlling shareholders of subsidiaries RMB'million	Sub-total RMB'million	Total RMB'million
364	84	19,787	38,282	1	1,345	4,052	5,495	10,893	49,175
–	–	(91)	(91)	–	–	–	–	–	(91)
364	84	19,696	38,191	1	1,345	4,052	5,495	10,893	49,084
–	–	1,225	1,225	–	54	125	75	254	1,479
–	–	–	3	–	–	–	–	–	3
–	–	–	(320)	–	–	–	–	–	(320)
–	–	–	301	–	–	–	–	–	301
–	11	–	11	–	–	–	–	–	11
–	(3)	–	(3)	–	–	–	–	–	(3)
–	–	–	30	–	–	–	–	–	30
–	8	1,225	1,247	–	54	125	75	254	1,501
–	–	–	1	–	–	–	–	–	1
–	–	–	2	–	–	–	–	–	2
67	–	–	67	–	–	–	–	–	67
–	–	–	–	–	–	–	(14)	(14)	(14)
–	–	16	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(2)	(2)	(2)
–	–	(461)	(461)	–	–	–	–	–	(461)
–	–	–	–	–	–	(123)	–	(123)	(123)
–	–	–	–	–	(53)	–	–	(53)	(53)
431	92	20,476	39,047	1	1,346	4,054	5,554	10,955	50,002
654	78	18,555	37,450	1	1,345	3,046	4,414	8,806	46,256
–	–	898	898	–	58	182	30	270	1,168
–	–	–	31	–	–	–	–	–	31
–	–	–	311	–	–	–	–	–	311
–	–	–	(512)	–	–	–	–	–	(512)
–	–	898	728	–	58	182	30	270	998
–	–	–	1	–	–	–	–	–	1
–	5	–	5	–	–	–	–	–	5
–	(1)	–	(1)	–	–	–	–	–	(1)
–	–	–	–	–	–	–	(29)	(29)	(29)
–	–	–	–	–	(58)	–	–	(58)	(58)
–	–	–	–	–	–	(173)	–	(173)	(173)
–	–	22	–	–	–	–	–	–	–
–	–	–	6	–	–	–	–	–	6
–	–	–	–	–	–	4,085	–	4,085	4,085
–	–	–	–	–	–	(43)	–	(43)	(43)
–	–	(273)	(273)	–	–	–	–	–	(273)
–	–	–	–	–	–	–	(3)	(3)	(3)
–	–	–	–	–	–	–	1	1	1
654	82	19,202	37,916	1	1,345	7,097	4,413	12,856	50,772

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTE	Six months ended 30 June 2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Net cash from (used in) operating activities			
Decrease in inventories of properties		719	1,898
Increase in accounts receivable, deposits and prepayments		(3,500)	(51)
Increase in contract assets		(110)	–
Decrease in amounts due from customers for contract work		126	–
Increase (decrease) in accounts payable, deposits received and accrued charges		111	(4,047)
Increase in contract liabilities		295	–
Other operating cash flows		3,136	2,119
		777	(81)
Net cash from investing activities			
Additions to investment properties		(80)	(330)
Proceeds from disposal of investment properties		24	542
Proceeds from disposal of assets classified as held for sale		443	468
Proceeds from disposal of subsidiaries		–	1,349
Proceeds from disposal of property, plant and equipment		–	20
Withdrawal of pledged bank deposits		1,515	2,589
Placement of pledged bank deposits		(656)	(742)
Advances to associates		–	(323)
Advances to related companies		–	(72)
Advances to joint ventures		(332)	(610)
Investments in joint ventures		–	(738)
Repayments from associates		–	316
Repayments from related companies		–	44
Repayments from joint ventures		640	–
Deposit on acquisition of the land		(680)	–
Payments made under rental guarantee arrangements		(170)	(299)
Net cash outflow from acquisition of a subsidiary	20(b)	(542)	–
Other investing cash flows		129	93
		291	2,307
Net cash (used in) from financing activities			
Capital injected by a non-controlling shareholder of a subsidiary		–	1
Loans from a non-controlling shareholder		–	154
Exercise of share option		2	–
Issue of new perpetual capital securities		–	4,085
Expenditures incurred on perpetual capital securities		–	(43)
New bank borrowings raised		6,651	6,503
Repayments of bank borrowings		(6,636)	(5,511)
Issue of senior notes		2,183	3,379
Expenditures incurred on issue of senior notes		(4)	(9)
Early redemption fee of senior notes		(78)	(67)
Repayments of senior notes		(5,683)	(3,879)
Settlements for derivative financial instruments designated as cash flow hedge		(360)	(258)
Interests paid		(1,110)	(1,590)
Payment of dividends		(461)	–
Distribution to owners of perpetual capital securities		(123)	(173)
Distribution to owners of convertible perpetual capital securities		(53)	(58)
Dividend paid to non-controlling shareholders of subsidiaries		(2)	(3)
		(5,674)	2,531
Net (decrease) increase in cash and cash equivalents		(4,606)	4,757
Cash and cash equivalents at the beginning of the period		14,607	9,653
Effect of foreign exchange rate changes		5	(116)
Cash and cash equivalents at the end of the period		10,006	14,294
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		10,006	14,294

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

APPLICATION OF NEW AND AMENDMENTS TO IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 15

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

Property development – development and sale of properties
Property investment – offices and commercial/mall leasing

Revenue from offices and commercial/mall leasing will continue to be accounted for in accordance with IAS 17 "Leases", whereas revenue from development and sale of properties will be accounted for under IFRS15.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 15 (CONTINUED)

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time or at a point in time. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For property development and sales contracts for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable.

PRESENTATION OF CONTRACT ASSETS AND LIABILITIES

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 15 (CONTINUED)

2.1.1 Key changes in accounting policies resulting from application of IFRS 15 (continued)

VARIABLE CONSIDERATION

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

EXISTENCE OF SIGNIFICANT FINANCING COMPONENT

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component. For contracts where the period between the payment by the customer and the transfer of the promised good or service exceeds one year, the transaction price is adjusted for the effects of a financing component, if significant. During the six months ended 30 June 2018, there is no significant financing component identified.

INCREMENTAL COSTS OF OBTAINING A CONTRACT

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs incurred to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 15 (CONTINUED)

2.1.2 Summary of effects arising from initial application of IFRS 15

Taking into account the changes in accounting policy arising from initial application of IFRS 15 as stated in Note 2.1.1, the Directors of the Company considered that the initial application of IFRS 15 has no material impact to the condensed consolidated financial statements of the Group or the timing and amount of revenue recognised.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'million	Reclassification RMB'million	Carrying amounts under IFRS 15 at 1 January 2018* RMB'million
Current Assets				
Contract assets	a	–	126	126
Amounts due from customers for contract work	a	126	(126)	–
Current Liabilities				
Accounts payable, deposits received and accrued charges	b	10,369	(2,889)	7,480
Contract liabilities	b	–	2,889	2,889

* The amounts in this column are before the adjustments from the application of IFRS 9.

(a) In relation to construction contracts previously accounted for under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. RMB126 million of amounts due from customers for contract work was reclassified to contract assets.

(b) As at 1 January 2018, for deposits received in relation to property sales previously presented in accounts payable, deposits received and accrued charges, RMB2,889 million was classified to contract liabilities.

The following tables summaries the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

IMPACT ON THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As reported RMB'million	Adjustments RMB'million	Amounts without application of IFRS 15 RMB'million
Current Assets			
Contract assets	110	(110)	–
Amounts due from customers for contract work	–	110	110
Current Liabilities			
Accounts payable, deposits received and accrued charges	7,330	3,184	10,514
Contract liabilities	3,184	(3,184)	–

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9

In the current period, the Group has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and accounts receivable) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9 (CONTINUED)

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, contract assets and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9 (CONTINUED)

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9 (CONTINUED)

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL (continued)

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 amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and contract assets where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets, contract assets and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9 (CONTINUED)

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Financial assets at FVTPL RMB'million	Financial assets at amortised cost (previously classified as loans and receivables) RMB'million	Contract assets RMB'million	Financial liabilities at amortised cost RMB'million	Retained earnings RMB'million
Closing balance at 31 December 2017						
– IAS 39		342	21,497	–	50,408	19,787
Effect arising from initial application of IFRS 15		–	–	126	–	–
Effect arising from initial application of IFRS 9						
Reclassification						
From designated at FVTPL		–	–	–	–	–
Remeasurement						
Impairment under ECL model	a	–	(91)	–	–	(91)
Opening balance at 1 January 2018		342	21,406	126	50,408	19,696

(a) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and accounts receivable. To measure the ECL, contract assets and accounts receivable have been assessed individually for debtors with significant balances or grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the accounts receivable for the same types of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of bank balances and cash, pledged bank deposits, amounts due from related companies, loans to/amounts due from joint ventures and loans to an associate are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB91 million has been recognised against retained earnings. The additional loss allowance is charged against the respective assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON IFRS 9 (CONTINUED)

2.2.2 Summary of effects arising from initial application of IFRS 9 (continued)

(a) Impairment under ECL model (continued)

All loss allowances for financial assets including accounts receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Other financial assets at amortised cost RMB'million	Contract assets RMB'million	Accounts receivable RMB'million
At 31 December 2017			
– IAS 39	–	N/A	–
Reclassification	–	–	–
Amounts remeasured through opening retained earnings	–	–	91
At 1 January 2018	–	–	91

(b) Hedge accounting

The Group applies the hedge accounting requirements of IFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition.

2.3 IMPACTS ON OPENING CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ARISING FROM THE APPLICATION OF ALL NEW STANDARDS

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'million	IFRS 15 RMB'million	IFRS 9 RMB'million	**1 January 2018 (Restated) RMB'million**
Current Assets				
Contract assets	–	126	–	126
Amounts due from customers for contract work	126	(126)	–	–
Accounts receivable and prepayments	7,520	–	(91)	7,429
Current Liabilities				
Accounts payable, deposits received and accrued charges	10,369	(2,889)	–	7,480
Contract liabilities	–	2,889	–	2,889
Capital and Reserves				
Reserves	38,136	–	(91)	38,045

3A. REVENUE INFORMATION

An analysis of the revenue of the Group for the period is as follows:

	Six momths ended 30 June 2018 (Unaudited) The Group RMB'million
Types of properties and services	
Property development:	
Property sales	17,888
Property investment:	
Rental income received from investment properties	828
Income from hotel operations	48
Property management fee income	49
Rental related income	71
	996
Construction	48
Others	100
Total	19,032
Timing of revenue recognition under IFRS 15	
A point in time	17,888
Over time	245
	18,133
Rental income and rental related income	899
Total	19,032
Geographical markets	
Shanghai	17,874
Wuhan	10
Chongqing	168
Foshan	81
Total	18,133

3B. SEGMENTAL INFORMATION

The Group is organised based on its business activities and has the following three major reportable segments:

Property development	–	development and sale of properties
Property investment	–	office and commercial/mall leasing, property management and hotel operations
Construction	–	construction, interior fitting-out, renovation and maintenance of building premises and provision of related consultancy services

	Six months ended 30 June 2018 (Unaudited)					
	Property development RMB'million	Property investment RMB'million	Construction RMB'million	Reportable segment total RMB'million	Others RMB'million	Consolidated RMB'million
SEGMENT REVENUE						
External revenue of the Group	17,888	996	48	18,932	100	19,032
Share of revenue of joint ventures	–	40	–	40	–	40
Total segment revenue	17,888	1,036	48	18,972	100	19,072
SEGMENT RESULTS						
Segment results of the Group	4,114	632	(9)	4,737	69	4,806
Interest income						144
Other gains and losses						(503)
Share of losses of joint ventures and associates						(4)
Finance costs, inclusive of exchange differences						(997)
Impairment losses, net of reversal						(183)
Unallocated income						7
Unallocated expenses						(190)
Profit before taxation						3,080
Taxation						(1,601)
Profit for the period						1,479

3B.SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2017 (Unaudited)					
	Property development RMB'million	Property investment RMB'million	Construction RMB'million	Reportable segment total RMB'million	Others RMB'million	Consolidated RMB'million
SEGMENT REVENUE						
External revenue of the Group	9,086	946	107	10,139	27	10,166
Share of revenue of joint ventures	–	–	–	–	–	–
Total segment revenue	9,086	946	107	10,139	27	10,166
SEGMENT RESULTS						
Segment results of the Group	3,574	673	(2)	4,245	13	4,258
Interest income						185
Other gains and losses						34
Share of losses of joint ventures and associates						(251)
Finance costs, inclusive of exchange differences						(1,004)
Unallocated income						23
Unallocated expenses						(221)
Profit before taxation						3,024
Taxation						(1,856)
Profit for the period						1,168

Segment revenue represents the revenue of the Group and the share of revenue of joint ventures.

Segment results represent the profit earned or loss incurred by each segment without allocation of central administration costs, Directors' salaries, interest income, share of losses of joint ventures and associates, other gains and losses except for the change in fair value of call option to buy back an investment property and finance costs inclusive of exchange differences. This is the measure reported to the chief operating decision makers who are the Executive Directors of the Company for resource allocation and performance assessment.

4. OPERATING PROFIT

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Operating profit has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	53	54
Release of prepaid lease payments	1	1
Employee benefits expenses		
Directors' emoluments		
Fees	1	1
Salaries, bonuses and other benefits	10	8
	11	9
Other staff costs		
Salaries, bonuses and other benefits	347	371
Retirement benefits costs	19	16
Share option expenses	1	1
Share award expenses	–	6
	367	394
Total employee benefits expenses	378	403
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(46)	(104)
	332	299
Cost of properties sold recognised as an expense	13,536	5,391
Reversal of impairment loss on properties held for sale and properties under development for sale (included in ''cost of sales'')	(1)	(5)
Minimum lease payments under operating leases	11	8
Interest income	(144)	(185)

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Impairment loss on investment properties under development at cost (note (i))	(380)	–
Loss on early redemption of senior notes	(78)	(67)
Loss on termination of a property sales contract	(48)	–
Decrease in fair value of call option to buy back an investment property (note 18)	(2)	(42)
Loss arising from rental guarantee arrangements (note 17)	–	(132)
Fair value gain on other derivative financial instruments	–	88
Gain on disposal of investment properties (note (ii))	3	145
	(505)	(8)

Notes:

(i) The amount represents the difference between the net realizable value of certain investment properties under development at cost in Foshan and the carrying amount of the properties recognised in profit or loss for the six months ended 30 June 2018.

(ii) During the six months ended 30 June 2017, the Group disposed certain retail units located in Shanghai, which were classified as completed investment properties, to an independent third party for a cash consideration after the deduction of value-added tax and transaction cost of RMB542 million, and recognised a gain of RMB153 million on disposal of investment properties for the six months ended 30 June 2017.

During the six months ended 30 June 2017, the Group completed the disposal of a hotel property located in Shanghai, which was classified as assets held for sale as at 31 December 2016, and recognised a loss of RMB8 million for the six months ended 30 June 2017.

6. FINANCE COSTS, INCLUSIVE OF EXCHANGE DIFFERENCES

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Interest on bank borrowings	911	844
Interest on loans from non-controlling shareholders of subsidiaries	29	3
Imputed interest of deferred consideration in relation to acquisition of subsidiaries	–	81
Interest on senior notes	392	805
Total interest costs	1,332	1,733
Less: Amount capitalised to investment properties under construction or development, properties under development for sale and hotels under development	(454)	(724)
Interest expense charged to profit or loss	878	1,009
Net exchange loss (gain) on bank borrowings and other financing activities	86	(31)
Others	33	26
	997	1,004

7. TAXATION

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
The People's Republic of China ("PRC") Enterprise Income Tax	769	741
Deferred taxation	325	128
PRC Land Appreciation Tax	505	972
PRC Withholding Tax	2	15
	1,601	1,856

No provision for Hong Kong Profits Tax has been made as the income of the Group neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax has been provided at the applicable income tax rate of 25% (for the six months ended 30 June 2017: 25%) on the assessable profits of the companies in the Group during the period.

The provision of PRC Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. PRC Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures.

8. DIVIDENDS

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Final dividend declared in respect of 2017 of HK$0.07 (2017: 2016 final dividend of HK$0.039) per share	461	273
Interim dividend declared in respect of 2018 of HK$0.036 (2017: 2017 interim dividend of HK$0.03) per share	253	205

Subsequent to the end of the interim period, the Board has declared the payment of HK$0.036 (equivalent to RMB0.0314) per share, amounting to HK$290 million (equivalent to RMB253 million) in aggregate as the interim dividend with respect to 2018.

A final dividend for the year ended 31 December 2017 of HK$0.07 (equivalent to RMB0.057 translated using the exchange rate of 0.81672 as at 1 June 2018) per share, amounting to HK$564 million (equivalent to RMB461 million translated using the exchange rate of 0.81672 as at 1 June 2018) in aggregate, was approved at the annual general meeting on 16 May 2018 and paid in June 2018.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to shareholders of the Company is based on the following data:

EARNINGS

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
Earnings for the purpose of basic earnings per share, being profit for the period attributable to shareholders of the Company	1,225	898
Effect of dilutive potential ordinary shares:		
Adjustment for convertible perpetual capital securities	54	58
Earnings for the purpose of diluted earnings per share	1,279	956

NUMBER OF SHARES

	Six months ended 30 June	
	2018 'million (Unaudited)	2017 'million (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share (note (a))	8,043	8,002
Effect of dilutive potential ordinary shares:		
Convertible perpetual capital securities	619	574
Outstanding share awards	2	17
Outstanding share options (note (c))	1	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	8,665	8,593
Basic earnings per share (note (b))	RMB15.2 cents HK$18.7 cents	RMB11.2 cents HK$12.7 cents
Diluted earnings per share (note (b))	RMB14.8 cents HK$18.1 cents	RMB11.1 cents HK$12.6 cents

Notes:

(a) The weighted average number of ordinary shares shown above has been arrived at after deducting 19,191,965 (six months ended 30 June 2017: 24,854,000) shares held by a share award scheme trust as set out in note 19.

(b) The Hong Kong dollar figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.000 to HK$1.2274 for the six months ended 30 June 2018 and RMB1.000 to HK$1.1337 for the six months ended 30 June 2017, being the average exchange rates that prevailed during the respective periods.

(c) There was no dilution effect for outstanding share options for the six months ended 30 June 2017 as the exercise prices of these share options were higher than the average market price of the Company's shares per share for the six months ended 30 June 2017.

10. INVESTMENT PROPERTIES

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Completed investment properties held to earn rentals or for capital appreciation or both	38,931	38,864
Investment properties under construction or development,		
stated at fair value	3,089	1,772
stated at cost	7,068	7,353
	10,157	9,125
	49,088	47,989

The movements of investment properties during the current and prior periods are as follows:

	Completed investment properties at fair value RMB'million	Investment properties under construction or development at fair value RMB'million	Investment properties under construction or development at cost RMB'million	Total RMB'million
At 1 January 2018 (audited)	38,864	1,772	7,353	47,989
Additions	16	54	95	165
Eliminated upon disposal of investment properties	(16)	–	–	(16)
Transfer to property, plant and equipment	(8)	–	–	(8)
Transfer from property, plant and equipment	55	–	–	55
Acquisition of a subsidiary (note 20(b))	–	1,243	–	1,243
Increase in fair value recognised in profit or loss	20	20	–	40
Impairment loss on investment properties under development at cost (note 5)	–	–	(380)	(380)
At 30 June 2018 (unaudited)	38,931	3,089	7,068	49,088
At 1 January 2017 (audited)	42,065	2,999	11,556	56,620
Additions	33	367	30	430
Eliminated upon disposal	(389)	–	–	(389)
Disposal of a subsidiary (note 20(c))	–	(2,108)	(386)	(2,494)
Transfer due to refurbishment	(1,633)	1,633	–	–
Transfer to property, plant and equipment	(15)	–	–	(15)
Transfer from property, plant and equipment	605	–	–	605
Transfer to properties under development for sale	–	–	(134)	(134)
Increase in fair value recognised in profit or loss	174	33	–	207
At 30 June 2017 (unaudited)	40,840	2,924	11,066	54,830

10. INVESTMENT PROPERTIES (CONTINUED)

All the completed investment properties are rented out under operating leases or/and are held for capital appreciation purposes.

The fair values of the Group's investment properties at 30 June 2018 and 31 December 2017 have been arrived at on the basis of valuations carried out on those dates by Knight Frank Petty Limited, independent qualified professional valuers not connected to the Group.

For completed investment properties, the valuations have been arrived using direct comparison method and capitalisation of net income method, where appropriate, on the basis of capitalisation of the rental income. In the valuation using capitalisation of net income method, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on the analyses of recent land transactions and market value of similar completed properties in the respective locations.

11. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE

	Notes	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Interests in associates			
– Deemed cost of remaining interest in a former subsidiary	(a)	5,021	1,033
– Share of post-acquisition results, net of effect on elimination of unrealised interest income		(7)	(3)
		5,014	1,030
Loan to an associate			
– Unsecured, interest bearing at 110% of People's Bank of China ("PBOC") Prescribed interest rate and repayable in 2019		1,260	–

(a) As disclosure in note 20(a), on 26 June 2018, the Group disposed of 49.5% interest pertaining to the portfolio of certain properties for residential development and has accounted for the remaining 49.5% interests as interests in associate at its fair value at the date when control was lost.

As disclosed in note 20(c), in May 2017, the Group disposed of a 79.2% equity interests in Chongqing Shui On Tiandi Real Estate Development Company Limited and has accounted for the remaining 19.8% interests as interests in associate at its fair value at the date when control was lost.

12. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Non-current balance comprise:		
Rental receivables in respect of rent-free periods	295	277
Trade receivables	57	144
Deposits for acquisition of a subsidiary	–	630
Other receivables	1	37
	353	1,088
Current balance comprise:		
Trade receivables	126	158
Prepayments of relocation costs (note)	1,449	6,004
Receivables from disposals of associates/subsidiaries	6,440	380
Deposit paid on acquisition of a land (note 26(a))	680	–
Other deposits, prepayments and receivables	582	903
Rental receivables in respect of rent-free periods	44	75
	9,321	7,520

Note:

The balances represent the amounts that will be capitalised to properties under development for sale as soon as the relocation is completed. Such relocation process in respect of the land portion which will be developed for sale is in accordance with the Group's normal operating cycle and accordingly the related relocation costs are classified as current assets.

Trade receivables comprise:

(i) receivables arising from sales of properties which are due for settlement in accordance with the terms of the relevant sale and purchase agreements;
(ii) rental receivables which are due for settlement upon issuance of monthly debit notes to the tenants; and
(iii) receivables arising from construction revenue of which a credit term of 40 days are granted to the customers.

Included in the Group's accounts receivable, deposits and prepayments are trade receivable balances of RMB183 million (31 December 2017: RMB302 million), of which 57% (2017: 46%) are aged less than 90 days, and 43% (2017: 54%) are aged over 90 days, as compared to when revenue was recognised.

The Group has cumulative impairment allowance of RMB94 million as at 30 June 2018 based on the provision matrix. In addition, an accounts receivable with significant balance amounting to RMB180 million as at 30 June 2018 was assessed individually impaired and impairment allowance of RMB180 million was made on that accounts receivable for the current interim period.

13. CONTRACT ASSETS

	30 June 2018 RMB'million (Unaudited)
Construction	110

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers contract assets to trade receivables when the Group has unconditional rights to bill for the construction work.

14. INTERESTS IN JOINT VENTURES/LOANS TO/AMOUNTS DUE FROM JOINT VENTURES

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Interests in joint ventures		
– Costs of investments, unlisted	4,040	4,040
– Share of post-acquisition results, net of effect on elimination of unrealised interest income	(57)	(35)
– Share of other comprehensive income of a joint venture	30	–
	4,013	4,005
Loans to joint ventures – non current		
– Unsecured, interest bearing at 110% of PBOC Prescribed Interest rate	1,425	1,899
Amounts due from joint ventures – non current		
– Unsecured, interest free	689	680
	6,127	6,584
Loans to joint ventures – current		
– Unsecured, interest bearing at 100% of PBOC Prescribed Interest Rate and repayable in 2018	–	654
– Unsecured, interest bearing at 110% of PBOC Prescribed Interest Rate and repayable in 2019	793	–
Amounts due from joint ventures – current		
– Unsecured, interest free and repayable on demand	39	6
	832	660

15. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Current portion comprise:		
Trade payables	2,527	3,505
Retention payables (note)	326	381
Relocation cost payable	2,654	1,552
Deed tax, business tax and other tax payables	157	353
Deposits received and receipt in advance in respect of rental of investment properties	714	603
Deposits received and receipt in advance from property sales	–	2,889
Deposits received from disposal of associates	–	343
Value-added tax payable	9	90
Accrued transaction costs in respect of disposal of a subsidiary (note 20(a))	30	–
Other payables and accrued charges	913	653
	7,330	10,369

Note:

Retention payables are expected to be paid upon the expiry of the retention periods according to the respective contracts.

Included in the Group's accounts payable, deposits received and accrued charges are trade payable balances of RMB2,527 million (2017: RMB3,505 million) of which 85% (2017:89%) are aged less than 30 days, 0% (2017: 1%) are aged between 31 to 60 days, and 15% (2017 :10%) are aged between 91 days and 365 days, based on invoice date.

16. SENIOR NOTES

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
At the beginning of period/year	10,706	17,312
Issue of senior notes	2,183	3,379
Less: Transaction costs directly attributable to issue of senior notes	(4)	(10)
Interest charged during the period/year	392	1,372
Loss on early redemption of senior notes	78	235
Less: Interest paid	(319)	(1,270)
Less: Redemption of senior notes	(5,761)	(9,484)
Exchange translation	(52)	(828)
At the end of period/year	7,223	10,706
Less: Amount due within one year shown under current liabilities	–	(5,781)
Amount due after one year	7,223	4,925

As at 30 June 2018, the effective interest rate on the senior notes ranged from 4.7% to 7.24% (2017: 4.7% to 9.8%) per annum.

16. SENIOR NOTES (CONTINUED)

ISSUANCE OF SENIOR NOTES DURING THE CURRENT PERIOD

On 2 March 2018, Shui On Development (Holding) Limited ("SODH") issued RMB1,600 million senior notes ("Original Notes") to independent third parties with a maturity of three years due on 2 March 2021.

On 26 April 2018, SODH further issued RMB600 million senior notes ("Additional Notes") to independent third parties due on 2 March 2021. In all respects except for the issue date and issue price, the Additional Notes were consolidated and formed a single series with the Original Notes issued on 2 March 2021 and were voted together as one series on all matters with respect to the abovementioned senior notes (the "2021 RMB2,200 million Notes"). The 2021 RMB2,200 million Notes bear coupon at 6.875% per annum payable semi-annually in arrears.

PRINCIPAL TERMS OF 2021 RMB2,200 MILLION NOTES

The 2021 RMB2,200 million Notes are:

(a) senior in right of payment to any existing and future obligations of SODH expressly subordinated in right of payment to the 2021 RMB2,200 million Notes;

(b) ranked at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of SODH (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law);

(c) guaranteed by the Company on a senior basis, subject to certain limitations;

(d) effectively subordinated to the secured obligations (if any) of the Company and SODH, to the extent of the value of the assets serving as security therefor; and

(e) effectively subordinated to all existing and future obligations of the subsidiaries of SODH.

At any time and from time to time on or after 2 March 2020, SODH may at its option to redeem the 2021 RMB2,200 million Notes, in whole or in part, at a redemption price equal to 103.438% of the principal amount plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on 2 March 2020.

At any time prior to 2 March 2020, the 2021 RMB2,200 million Notes may be redeemed at the option of SODH, in whole or in part, at a redemption price equal to the sum of 100% of the principal amount of the 2021 RMB2,200 million Notes plus accrued and unpaid interest (if any) and an Applicable Premium (see the definition below). In the opinion of the Directors of the Company, the fair value of the option to early redeem the 2021 RMB2,200 million Notes is insignificant at initial recognition and at the end of the reporting period.

"Applicable Premium" means with respect to the 2021 RMB2,200 million Notes at any redemption date, the greater of (1) 1.00% of the principal amount of the 2021 RMB2,200 million Notes and (2) the excess of (A) the present value at such redemption date of (i) the redemption amount of the senior notes redeemed, plus (ii) all required remaining scheduled interest payments due on the 2021 RMB2,200 million Notes through 2 March 2020 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate of 2.5% per annum, over (B) the principal amount of the senior notes redeemed on such redemption date.

At any time and from time to time prior to 2 March 2020, SODH may redeem up to 35% of the aggregate principal amount of the 2021 RMB2,200 million Notes at a redemption price of 106.875% of the principal amount of the 2021 RMB2,200 million Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In the opinion of the Directors of the Company, the fair value of the option to early redeem the 2021 RMB2,200 million Notes is insignificant at initial recognition and at the end of the reporting period.

17. LIABILITIES ARISING FROM RENTAL GUARANTEE ARRANGEMENTS

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Rental guarantees, at fair values	558	728
For the purpose of financial statements presentation:		
Non-current liabilities	388	551
Current liabilities	170	177
	558	728

During the year ended 31 December 2014, the Group disposed of an investment property to an independent third party ("purchaser") for a cash consideration of RMB2,412 million. As part of the disposal, the Group also agreed to provide the purchaser with a rental guarantee whereby the Group agreed to compensate the purchaser on a yearly basis, from the date when the first instalment was received till 31 January 2019 which could be further extended by the purchaser for three times, each for a one-year period when certain conditions are met, the shortfall between a fixed rate of the consideration received by the Group from the purchaser and the net operating income to be generated by the property. On the other hand, the Group shall be entitled to receive from the purchaser a fee amounting to 80% of the excess of net operating income above a fixed rate of the consideration received by the Group from the purchaser.

A similar arrangement was entered into during the year ended 31 December 2013 with another independent third party purchaser, which, in accordance with the related sales and purchase agreement, the rental guarantee arrangement was expired in January 2017.

In the current period, the Group has reassessed and revised the related cash flow forecasts taking into account the latest market conditions.

As at 30 June 2018, the fair value of financial liabilities arising from the abovementioned rental guarantee arrangement, which is calculated by using Monte-Carlo simulation using the following assumptions:

	30 June 2018	31 December 2017
Estimated office unit rental	RMB82 to RMB86 per square meter	RMB79 to RMB86 per square meter
Occupancy rate	65% to 96%	62% to 90%
Risk-free rate	3.32%	3.82%
Discount rate	10.19%	9.38%
Expected expiry date	31 January 2022	31 January 2022

RMB nil (for the six months ended 30 June 2017: a loss of RMB132 million, included in "other gains and losses" item) has been recognised in profit or loss in the current period to reflect changes in estimates.

The Group's liabilities arising from rental guarantee arrangements that are measured at fair value at the end of the reporting period are grouped under Level 3. There were no transfers in or out of Level 3 during the period. Level 3 fair value measurements are those derived from inputs that are unobservable for the asset or liability. The higher the estimated office unit rental and occupancy rate, the lower the fair value of the liabilities arising from rental guarantee arrangements. The higher the discount rate is, the lower the fair value of the liabilities arising from rental guarantee arrangements.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Derivative financial instruments include:		
Call option to buy back an investment property	340	342
Currency forward contracts designated as hedging instruments	87	(214)
For the purpose of financial statement presentation:		
Non-current assets	340	342
Current assets	87	–
Current liabilities	–	214

Call option to buy back an investment property

In previous years, the Group disposed of its entire equity interest in a subsidiary, and the related intercompany loans, that indirectly owned 99% interest in an investment property located in Shanghai, the PRC, to an independent third party for a cash consideration of RMB3,364 million.

In accordance with the relevant sale and purchase agreement entered into in previous years, the Group was granted a call option to repurchase all the equity interest of the disposed subsidiary and the related shareholders' loans within two months before the fifth anniversary or the seventh anniversary of the completion of the disposal (i.e. 18 December 2013), at a price equals to the original consideration plus a premium per annum.

The Group has engaged an independent valuer to estimate the fair value of the option as at 30 June 2018. As at 30 June 2018, the fair value of the call option was estimated to be RMB340 million (31 December 2017: RMB342 million). The fair value of the option as at 30 June 2018 and 31 December 2017 are determined using Monte-Carlo simulation with the following key assumptions:

	30 June 2018	31 December 2017
99% interest of property valuation	RMB6,039million	RMB5,891million
Time to maturity	2.47 years	2.97 years
2.47-year risk-free rate (2017: 2.97-year)	3.34%	3.79%
0.47-year forward 2-year risk free rate (2017: 0.97-year forward 2-year)	3.38%	3.78%
Volatility	5.07%	5.34%

The property was valued by direct comparison approach with reference to market comparable transactions where available and assumed sale of the property with the benefit of vacant possession. The above risk free rates were determined with reference to yields of RMB China government bond. The volatility was determined with reference to the average rent of Premium Grade A office in the same region as the location of the subject investment property.

The call option that is measured at fair value at the end of the reporting period is grouped under Level 3. Level 3 fair value measurements are those derived from inputs that are unobservable for the asset or liability.

An increase in the property valuation would result in an increase in the fair value of the call option, and vice versa. If the property valuation is 3% (31 December 2017:3%) higher and lower while all other variables are held constant, the carrying amount of the call option would increase to approximately RMB514 million (31 December 2017: RMB498 million) and decrease to approximately RMB190 million (31 December 2017: RMB223 million) respectively.

Currency forward contracts designated as hedging instruments

During the six months ended 30 June 2018, the Group entered into several currency forward contracts to reduce currency exchange fluctuation of certain Group's senior notes and bank borrowings. The currency forward contracts have been negotiated to match the settlement period of those senior notes and bank borrowings.

During the six months ended 30 June 2018, the fair value gain arising from the currency forward contracts of RMB301 million was recognised in other comprehensive income. An amount of RMB320 million has been released from hedge reserve to the profit or loss during the six months ended 30 June 2018.

19. SHARE-BASED PAYMENT TRANSACTIONS

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed by the shareholders on 8 June 2007 for the primary purpose of providing incentives to Directors of the Company, eligible employees and consultants. Under the Scheme, the total number of shares in respect of which options may be granted is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

As of 30 June 2018, 26,644,615 share options (31 December 2017: 29,046,037 share options) remained outstanding under the Scheme, representing 0.3% (31 December 2017: 0.4%) of the ordinary shares of the Company in issue at that date. The Scheme allows the Board of Directors of the Company, when offering the grant of any option, to impose any condition including any performance target which must be met before the option shall vest and become exercisable. The exercise price is determined by the Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Group recognised a total expense of RMB1 million (for the six months ended 30 June 2017: RMB1 million) in the condensed consolidated statement of profit or loss for the current period in relation to share options granted by the Company.

The movement in the Company's share options during the current period is set out below:

		Number of options			
Date of grant	Exercise price HK$	At 1 January 2018	Exercised during the period	Lapsed during the period	At 30 June 2018
18 January 2012	2.41	7,271,261	–	(845,175)	6,426,086
3 September 2012	4.93	7,712,176	–	(211,847)	7,500,329
7 July 2015	2.092	5,675,200	(570,000)	(108,600)	4,996,600
4 July 2016	1.98	8,387,400	(341,800)	(324,000)	7,721,600
Total		29,046,037	(911,800)	(1,489,622)	26,644,615
Categorised as:					
Directors		437,000	–	–	437,000
Employees		28,609,037	(911,800)	(1,489,622)	26,207,615
		29,046,037	(911,800)	(1,489,622)	26,644,615
Number of options exercisable		17,327,381			18,107,876

The Scheme expired on 7 June 2017 and no further share options can be granted thereunder. However, the rules of the Scheme remain in full force and effect to the extent necessary to give effect to the exercise of options granted prior to its expiration or otherwise as may be required in accordance with the rules of the Scheme. All outstanding share options granted prior to the expiration of the Scheme shall continue to be valid and exercisable in accordance with the rules of the Scheme. A new share option scheme was adopted by the Company on 24 May 2017.

During the six months ended 30 June 2018, 911,800 (for the six months ended 30 June 2017: nil) share options have been exercised.

19. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE AWARD SCHEME

On 1 April 2015, (1) a connected employee share award scheme and (2) an employee share award scheme were adopted by the Company. The share award schemes are effective for a period of 16 years commencing from 1 April 2015. Pursuant to these two schemes, the Group has set up a trust for the purpose of administering the share award schemes and holding the awarded shares before they vest. The Company shall pay to the trustee monies and give directions or recommendation to the trustee to apply such monies and/or such other net amount of cash derived from shares held as part of the fund of the trusts to acquire shares from the market, and/or to allot and issue shares to the trustee, to satisfy any award made to selected participants. The remuneration committee of the Company shall select eligible persons and determine the number of shares to be awarded. Upon termination of the schemes, the trustee shall sell all unvested shares remaining in the trusts within a reasonable time period as agreed between the trustee and the Company, and remit all cash and net proceeds of such sale and such other funds remaining in the trust to the Company.

During the six months period ended 30 June 2015, a total of 17,149,000 award shares and 7,705,000 award shares of the Company have been awarded to certain connected employees (including Directors of the Company and certain subsidiaries) and employees of the Group respectively at no consideration.

The awarded shares shall vest upon conditions relating to the Group's performance and the individual performance being met during the 3-year performance period.

As at 30 June 2018, 19,191,965 (31 December 2017: 24,854,000) shares are allotted at par and held by the trust for the share award schemes.

RMB0.4 million (for the six months ended 30 June 2017: RMB6 million) was recognised as an expense in profit or loss for the current period with the corresponding credit being recognised in equity under the heading of "share award reserve".

Vesting dates	Outstanding at 1 January 2018	Movement during the period			Outstanding at 30 June 2018
		Awarded	Lapsed	Vested	
Connected Employee Share Award Scheme					
On or before 30 September 2017 (after the publication of 2016 annual results by the Company)	6,119,500	–	(3,772,812)	(2,346,688)	–
2 January 2018	3,059,750	–	(1,886,403)	(1,173,347)	–
2 January 2019	3,059,750	–	(1,886,410)	–	1,173,340
	12,239,000	–	(7,545,625)	(3,520,035)	1,173,340
Employee Share Award Scheme					
On or before 30 September 2017 (after the publication of 2016 annual results by the Company)	2,448,000	–	(1,020,000)	(1,428,000)	–
2 January 2018	1,224,000	–	(510,000)	(714,000)	–
2 January 2019	1,224,000	–	(510,000)	–	714,000
	4,896,000	–	(2,040,000)	(2,142,000)	714,000
	17,135,000	–	(9,585,625)	(5,662,035)	1,887,340

20. ACQUISITIONS AND DISPOSALS

(a) Disposal of 49.5% effective rights and interests pertaining to a portfolio of certain properties of Shanghai Rui Hong Xin Cheng Co., Ltd. ("Shanghai RHXC")

On 26 June 2018, the Group entered into an agreement with an independent third party pursuant to which the Group would effectively dispose of its 49.5% interest pertaining to the portfolio of certain properties for residential development via disposal of 50% equity interests in Colour Bridge Holdings Limited, a subsidiary in which the Group originally owned 100% equity interest, at a consideration of approximately RMB4,623 million. As of 28 June 2018, the equity disposal was completed and the Group accounted for the remaining interest as interest in an associate upon the loss of the control.

The net assets of the portfolio of certain properties for residential development of Shanghai RHXC at the date of the disposal were as follows:

	RMB'million
Net assets disposed of:	
Properties under development for sale	12,320
Accounts receivable, deposits and prepayments	6
Accounts payable, accrued charges and deposits received	(3)
Amount due to group companies	(1,229)
Bank borrowings	(5,818)
Net assets disposal of	5,276
Gain on disposal of subsidiaries:	
Cash consideration receivable	4,623
Less: Transaction costs payable	(30)
Less: Withholding tax	(594)
Less: Net assets disposed of	(5,276)
Add: Non-controlling interests	14
Add: Fair value of the remaining interest accounted for as interest in an associate	4,623
Net gain on disposal	3,360

The Group recognized net gain on disposal of RMB2,160 million for the six months ended 30 June 2018. The disposal was accounted for as a sale of property inventories in the ordinary course of the Group's property business, and the Group recognises revenue when "control" of the properties was transferred to the customer at a point in time. As the Group's entitlement to certain consideration was contingent on the occurrence or non-occurrence of a future event thus the transaction price included a variable consideration. The Group would record such part of consideration only when it became probable that a significant reversal in the amount of cumulative revenue would not occur when uncertainty associated with variable consideration was subsequently resolved. Revenue from the sale of properties under development for sale amounting to RMB14,981 million and the cost of sales amounting to RMB12,197 million were recognized, representing 99% interest disposed by the Group. In addition, the transaction costs of RMB30 million and withholding tax of RMB594 million have been expensed in profit or loss for the six months ended 30 June 2018.

(b) Acquisition of equity interest in Shanghai Xin Wan Jing Property Limited

On 20 December 2017, Shanghai Ze Chen Real Estate Co., Limited (an indirect wholly-owned subsidiary of the Company) (as the "Purchaser"), entered into a sale and purchase agreement with an independent third party seller, pursuant to which the seller has agreed to dispose of, and the purchaser has agreed to acquire 100% equity interest of Shanghai Xin Wan Jing Property Limited for a consideration of RMB1,172 million of which RMB542 million was paid in the current period and RMB630 million was paid in 2017. The acquisition was completed on 4 January 2018 and has been reflected in the movements of the Group's investment properties (see note 10). The acquisition was accounted for as an asset acquisition.

20. ACQUISITIONS AND DISPOSALS (CONTINUED)

(c) Disposal of equity interest in Chongqing Shui On Tiandi Real Estate Development Company Limited in the prior period

On 26 May 2017, the Group entered into an agreement with an independent third party pursuant to which the Group would effectively dispose its 79.2% interest in the portfolio of certain properties via disposal at relevant equity interests in Chongqing Shui On Tiandi Real Estate Development Company Limited, a subsidiary in which the Group owned 99% equity interest, at a consideration of approximately RMB4,133 million. The equity disposal was completed on 29 June 2017.

The net assets of the portfolio of certain properties at the date of the disposal were as follows:

	RMB'million
Net assets disposed of:	
Properties under development for sale	1,806
Investment properties under construction or development	2,494
Accounts receivable, deposits and prepayments	2
Deferred tax assets	29
Bank loans	(515)
Accounts payable, deposits received and accrued charges	(114)
	3,702
Gain on disposal of subsidiaries:	
Cash consideration received	4,133
Less: Transaction costs	(14)
Less: Net assets disposed of	(3,702)
Add: Non-controlling interests	29
Add: Fair value of the remaining interest in an associate	1,033
Gain on disposal (note (i))	1,479
Net cash inflow arising on the disposal for the period ended 30 June 2017:	
Cash consideration received from disposal of properties inventories	1,210
Cash consideration received from disposal of investment properties and related assets and liabilities	1,270

Note:

(i) The disposal was partially accounted for as a sale of property inventories in the ordinary course of the Group's property business. Revenue from the sale of properties under development for sale amounting to RMB3,229 million and the cost of sales amounting to RMB1,788 million were recognised at the completion date, representing 99% interest disposed by the Group. The remaining gain of RMB38 million represents gain on disposal of investment properties under construction or development and other net assets included in "Gain on disposal of investment properties through disposal of subsidiaries" for the six months ended 30 June 2017.

The net assets value was adjusted during the year ended 31 December 2017. The cost of sales was adjusted to RMB1,645 million and loss on disposal of investment properties under construction or development and other net asset was adjusted to RMB78 million.

(d) Disposal of equity interest in Infoshore International Limited in the prior period

Pursuant to a sale and purchase agreement entered into with independent third parties on 10 December 2015, the Group, on 2 February 2016, completed a disposal of its entire equity interest in a subsidiary, namely Infoshore International Limited ("Infoshore") and the related shareholders' loans for an aggregate cash consideration of approximately RMB5,759 million. Infoshore indirectly held an investment property located in Shanghai, the PRC.

The total gain of RMB476 million was recognised for the year ended 31 December 2016. In addition, the net asset value of the disposal subsidiaries was finalised during six month ended 30 June 2017, the consideration was adjusted downward by RMB19 million and recognised as loss in the prior period.

20. ACQUISITIONS AND DISPOSALS (CONTINUED)

(e) Disposal of equity interest in Richcoast Group

On 14 November 2017, Innovate Zone Group Limited, an indirect subsidiary of the Company entered into a sale and purchase agreement with Many Gain and Yida, in relation to the sale of 61.54% of the issued share capital in and the related loans to Richcoast Group for the consideration of RMB3,160 million. The transaction was completed on 14 May 2018.

The Directors of the Company believe that it is highly probable that the disposal will be completed within twelve months from the date when the assets are classified as held for sale, and therefore the related assets and liabilities have been classified as "assets classified as held for sale" as at 31 December 2017, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinue Operations*.

21. PERPETUAL CAPITAL SECURITIES

On 20 June 2017, SODH issued US$600 million (equivalent to approximately RMB4,085 million) 6.40% guaranteed perpetual capital securities ("Perpetual Capital Securities") at an issue price of 100% of the principal amount. The Perpetual Capital Securities were guaranteed by the Company on a senior basis for the due payment of all sums which may be payable by SODH under the Perpetual Capital Securities. Distributions on the Perpetual Capital Securities are paid semi-annually in arrears in U.S. dollars on 20 June and 20 December in each year, commencing on 20 December 2017 and can be deferred at the discretion of SODH. The Perpetual Capital Securities have no fixed maturity and are redeemable at SODH's option on or after 20 June 2022 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company and SODH cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and SODH.

22. PLEDGE OF ASSETS

The following assets were pledged to banks as securities to obtain certain banking facilities at the end of the reporting period:

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Investment properties	31,882	31,394
Property, plant and equipment	75	546
Prepaid lease payments	7	7
Properties under development for sale	1,948	8,278
Properties held for sale	1,127	2,321
Accounts receivable	37	42
Bank deposits	1,294	2,153
	36,370	44,741

In addition, the equity interests in certain subsidiaries with carrying amount of net assets of RMB5,975 million (31 December 2017: RMB6,363 million) are also pledged to banks as securities to obtain banking facilities granted to the Group at the end of the reporting period.

23. COMMITMENTS AND CONTINGENCIES

(a) Capital and other commitments

As of the end of the reporting period, the Group had the following commitments:

	30 June 2018 RMB'million (Unaudited)	31 December 2017 RMB'million (Audited)
Contracted but not provided for:		
Development costs for investment properties under construction or development	1,033	964
Development costs for properties under development held for sale	1,510	1,272
Leasehold improvement expenditure	28	–
Acquisition of subsidiaries	–	514
	2,571	2,750

(b) Contingent liabilities

(i) Pursuant to an agreement entered into with the district government (the "Hongkou Government") and the Education Authority of the Hongkou District, Shanghai, the PRC on 31 July 2002, guarantees of no more than RMB324 million (31 December 2017: RMB324 million) will be granted by the Group to support bank borrowings arranged in the name of a company to be nominated by the Hongkou Government, as part of the financial arrangement for the site clearance work in relation to the development of a parcel of land. As at 30 June 2018 and 31 December 2017, such arrangement has not taken place.

(ii) The Group provided guarantees of RMB1,751 million at 30 June 2018 (31 December 2017: RMB1,929 million) to banks in favour of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's developed properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted.

In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the Directors of the Company exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors of the Company consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the condensed consolidated statement of financial position as at 30 June 2018. Should the actual outcome be different from expected, provision for losses will be recognised in the condensed consolidated financial statements.

24. RELATED PARTY TRANSACTIONS

Apart from the related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with related parties during the current period:

	Six months ended 30 June	
	2018 RMB'million (Unaudited)	2017 RMB'million (Unaudited)
SOCL and its subsidiaries other than those of the Group*		
Rental and building management fee expenses	2	2
Travel expenses	5	4
SOCAM and its subsidiaries, associates of SOCL*		
Revenue from construction services	27	43
Associates		
Interest income	–	28
Imputed interest income	–	30
Labor fee income	2	3
Revenue from construction services	2	–
Joint venture		
Interest income	34	20
Asset management fee income	11	–
Project management fee income	36	–
Non-controlling shareholders of subsidiaries		
Interest expense	30	3
Key management personnel		
Short-term benefits	60	52
Share award expenses	–	3
	60	55

* SOCL, indicating Shui On Company Limited, a private limited liability company incorporated in the British Virgin Islands ("BVI") and its ultimate controlling party is Mr. Vincent H.S. Lo, who is also the Chairman and Executive Director of the Company.

SOCAM, indicating SOCAM Development Limited, an associate of SOCL.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's derivative financial instruments, other than the liabilities arising from rental guarantee arrangements and call option to buy back an investment property, are measured at fair value at the end of the reporting period that are grouped under Level 2. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group's liabilities arising from rental guarantee arrangements and call option to buy back an investment property are measured at fair value at the end of the reporting period that are grouped under Level 3. The fair values of both instruments are estimated based on Monte-Carlo simulation using key inputs as disclosed in notes 17 and 18 respectively.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the reconciliation of level 3 instruments for the period ended 30 June 2018 and 30 June 2017:

	Liabilities arising from rental guarantee arrangements RMB'million Note 17	Call option to buy back an investment property RMB'million Note 18
At 1 January 2017 (audited)	(599)	460
Payments	299	–
Fair value changes (note 5)	(132)	(42)
At 30 June 2017 (unaudited)	(432)	418
At 1 January 2018 (audited)	(728)	342
Payments	170	–
Fair value changes (note 5)	–	(2)
At 30 June 2018 (unaudited)	(558)	340

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models base on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Where there is a material change in the fair value of an asset or a liability, the causes of the fluctuations will be reported to the Directors of the Company for appropriate actions to be taken.

Information about the valuation techniques, and inputs and key assumptions used in determining the fair value of various assets and liabilities are disclosed in notes 17 and 18.

26. EVENT AFTER THE REPORTING PERIOD

The Group has noted the following events after the reporting period:

(a) On 5 July 2018, the Group and two independent third parties not connected to the Group succeeded in the bid of the land use rights of a land offered for sale by Shanghai Huangpu District Planning and Land Bureau at the bidding for RMB13,610 million, and entered into an agreement with these two independent third parties to set up a joint-venture company ("JV Company") to carry out property development project on the land, which was located in Huangpu District, Shanghai, the PRC. Upon establishment, Group will own 25% of the JV Company.

(b) On 6 July 2018, the Group received RMB214 million for the disposal of equity interest in Richcoast Group as disclosed in note 20(e).

(c) On 20 July 2018, the Group received US$535 million (equivalent to approximately RMB3,589 million) for the disposal of equity interest in Colour Bridge Holdings Limited as disclosed in note 20(a).

27. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27 August 2018.

INTERIM DIVIDEND

The Board has declared an interim dividend of HKD0.036 per share (2017: HKD0.03 per share) for the six months ended 30 June 2018, which is payable on or about 27 September 2018 to shareholders whose names appear on the register of members of the Company on 12 September 2018.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 12 September 2018.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) were required to be 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 and short positions which were taken or deemed to have been taken under such provisions of the SFO); or (ii) were recorded in the register required to be kept under section 352 of the SFO; or (iii) 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") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) LONG POSITION IN THE SHARES AND THE UNDERLYING SHARES OF THE COMPANY

	Number of ordinary shares			Interests in the underlying shares		Approximate percentage of interests to the issued share capital of the Company
Name of Directors	Personal interests	Family interests	Other interests	Share options (Note 3)	Total	(Note 4)
Mr. Vincent H. S. LO	–	1,849,521 (Note 1)	4,611,835,751 (Note 2)	–	4,613,685,272	57.23%
Mr. Douglas H. H. SUNG	–	–	–	437,000	437,000	0.0054%
Sir John R. H. BOND	250,000	–	–	–	250,000	0.003%
Dr. William K. L. FUNG	5,511,456	–	–	–	5,511,456	0.06%
Professor Gary C. BIDDLE	305,381	–	–	–	305,381	0.0038%
Dr. Roger L. McCARTHY	200,000	–	–	–	200,000	0.002%

Notes:

(1) These shares were beneficially owned by Ms. Loletta CHU ("Mrs. LO"), the spouse of Mr. Vincent H. S. LO ("Mr. LO"). Mr. LO was deemed to be interested in 1,849,521 shares under Part XV of the SFO.

(2) These shares were held by Shui On Company Limited ("SOCL") through its controlled corporations, comprising 675,493,996 shares, 1,477,888,889 shares, 183,503,493 shares, 29,847,937 shares, 633,333,333 shares, 908,448,322 shares, 150,000,000 shares, 323,319,781 shares and 230,000,000 shares held by Shui On Properties Limited ("SOP"), Shui On Investment Company Limited ("SOI"), Chester International Cayman Limited ("Chester International"), New Rainbow Investments Limited ("NRI"), Lanvic Limited ("Lanvic"), Boswell Limited ("Boswell"), Merchant Treasure Limited ("Merchant Treasure"), Doreturn Limited ("Doreturn") and Smart Will Investments Limited ("Smart Will") respectively whereas SOP, Chester International, Lanvic, Boswell, Merchant Treasure, Doreturn and Smart Will were all wholly-owned subsidiaries of SOI. NRI was a wholly-owned subsidiary of SOCAM Development Limited ("SOCAM") which in turn was held by SOCL as to 48.38% as of 30 June 2018. SOCL was held under the Bosrich Unit Trust, the trustee of which was Bosrich Holdings (PTC) Inc. ("Bosrich"). The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. LO was the founder and a discretionary beneficiary and HSBC International Trustee Limited ("HSBC Trustee") was the trustee. Accordingly, Mr. LO, Mrs. LO, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.

(3) These represent the interests of share options granted to the Directors and/or their respective associate(s) for subscription of shares of the Company under the share option scheme adopted by the Company on 8 June 2007.

(4) These percentages have been compiled based on the total number of issued shares (i.e. 8,062,216,324 shares) of the Company at 30 June 2018.

(B) INTERESTS IN THE DEBENTURES OF THE ASSOCIATED CORPORATION OF THE COMPANY

Name of Directors	Name of Associated Corporation	Nature of Interests	Amount of Debentures
Mr. LO	Shui On Development (Holding) Limited	Founder and discretionary beneficiary of a trust	RMB50,000,000
		Family interests	RMB35,500,000
		Family interests	USD2,000,000

Save as disclosed above, at 30 June 2018, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

At 30 June 2018, the persons or corporations (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Total number of ordinary shares and underlying shares	Approximate percentage of interests in the Company (Note 4)
Mrs. LO	Family and Personal	4,613,685,272 (Notes 1 & 3)	57.23%
HSBC Trustee	Trustee	4,611,835,751 (Notes 2 & 3)	57.20%
Bosrich	Trustee	4,611,835,751 (Notes 2 & 3)	57.20%
SOCL	Interests of Controlled Corporation	4,611,835,751 (Notes 2 & 3)	57.20%

Notes:

(1) These shares comprised 1,849,521 shares beneficially owned by Mrs. LO and 4,611,835,751 shares in which Mr. LO, the spouse of Mrs. LO, had a deemed interest under Part XV of the SFO as mentioned in note (2) below. Accordingly, Mrs. LO was also deemed to be interested in 4,611,835,751 shares under Part XV of the SFO.

(2) These shares were held by SOCL through its controlled corporations, comprising 675,493,996 shares, 1,477,888,889 shares, 183,503,493 shares, 29,847,937 shares, 633,333,333 shares, 908,448,322 shares, 150,000,000 shares, 323,319,781 shares and 230,000,000 shares held by SOP, SOI, Chester International, NRI, Lanvic, Boswell, Merchant Treasure, Doreturn and Smart Will respectively whereas SOP, Chester International, Lanvic, Boswell, Merchant Treasure, Doreturn and Smart Will were all wholly-owned subsidiaries of SOI. NRI was a wholly-owned subsidiary of SOCAM which in turn was held by SOCL as to 48.38% as of 30 June 2018. SOCL was held under the Bosrich Unit Trust, the trustee of which was Bosrich. The units of the Bosrich Unit Trust were the property of a discretionary trust, of which Mr. LO was the founder and a discretionary beneficiary and HSBC Trustee was the trustee. Accordingly, Mr. LO, Mrs. LO, Bosrich and HSBC Trustee were deemed to be interested in such shares under Part XV of the SFO.

(3) All the interests stated above represent long positions.

(4) These percentages have been compiled based on the total number of issued shares (i.e. 8,062,216,324 shares) of the Company at 30 June 2018.

Save as disclosed above, at 30 June 2018, the Directors are not aware of any other person or corporation (other than a Director or chief executive of the Company), having an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

The share option scheme of the Company adopted on 8 June 2007 (the "Old Scheme") expired on 7 June 2017 and no further share options can be granted thereunder. However, the rules of the Old Scheme remain in full force and effect to the extent necessary to give effect to the exercise of options granted prior to its expiration or otherwise as may be required in accordance with the rules of the Old Scheme. All outstanding share options granted prior to the expiration of the Old Scheme shall continue to be valid and exercisable in accordance with the rules of the Old Scheme.

A new share option scheme (the "Share Option Scheme") was adopted by the Company on 24 May 2017 and no share option has been granted under the Share Option Scheme since its adoption.

Particulars of the Old Scheme are set out in note 19 to the condensed consolidated financial statements.

The following table sets out the movement of the Company's share options during the six months ended 30 June 2018:

Name or category of Eligible participants	Date of grant	Exercise price per share HKD	At 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2018	Period during which the share options are exercisable
Director								
Mr. Douglas H. H. SUNG	4 July 2016	1.98	437,000	–	–	–	437,000	1 June 2017– 3 July 2022
Sub-total			437,000	–	–	–	437,000	
Employees (in aggregate)	18 January 2012	2.41	7,271,261	–	–	(845,175)	6,426,086	28 June 2013 – 17 January 2020
	3 September 2012	4.93	1,594,927	–	–	(35,850)	1,559,077	3 October 2012 – 28 October 2018
	3 September 2012	4.93	6,117,249	–	–	(175,997)	5,941,252	5 November 2012 – 4 November 2019
	7 July 2015	2.092	5,675,200	–	(570,000)	(108,600)	4,996,600	1 June 2016 – 6 July 2021
	4 July 2016	1.98	7,950,400	–	(341,800)	(324,000)	7,284,600	1 June 2017 – 3 July 2022
Sub-total			28,609,037	–	(911,800)	(1,489,622)	26,207,615	
Total			29,046,037	–	(911,800)	(1,489,622)	26,644,615	

CORPORATE GOVERNANCE

The Company is committed to enhancing its corporate governance practices and to pursuing the right balance between conformance and performance in its corporate governance. The Company reviews its corporate governance practices from time to time to ensure it complies with all the applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and aligns with its latest developments. The Board believes that good corporate governance is essential to the success of the Company, the enhancement of shareholder value, and stakeholders' confidence in the Company.

COMPLIANCE WITH THE CG CODE

During the six months ended 30 June 2018, the Company has complied with all the applicable code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

To comply with the code provision A.6.4 of the CG Code, the Company has established and adopted a Code for Securities Transactions by Relevant Employees (as defined in the Listing Rules) on terms no less exacting than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished inside information in relation to the Company or its securities because of their offices or employments.

No incident of non-compliance with the Model Code by the Directors and the Code for Securities Transactions by Relevant Employees was noted by the Company during the six months ended 30 June 2018.

BOARD COMPOSITION

A majority of the Company Board of Directors (the "Board") are Independent Non-executive Directors ("INEDs"). With the appointment of Ms. Stephanie B. Y. LO as a member of the Board on 27 August 2018, the Board is now made up of ten members in total, with three Executive Directors, one Non-executive Director and six INEDs.

In conformity to the Board Diversity Policy adopted by the Company, the composition of the Board reflects the necessary balance of skills, experience and diversity of perspectives desirable for effective leadership of the Company and independence in decision-making.

In addition, the functions of the Board and the management are clearly established and set out in writing for delegation of day-to-day operational responsibility to the management of the Company.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of chairman and chief executive of the Company are separated and currently performed by Mr. Vincent H. S. LO ("Mr. LO") and the Executive Committee of the Company ("EXCOM") respectively. Mr. LO, who is the Chairman of the Company and one of the members of the EXCOM, takes an active role in steering the business and to leverage his experience to guide the EXCOM at a strategic level and promote the Company's sustainable growth. The reformed EXCOM, after the reorganized management of the Group, collectively takes the key management role of the Company on executive decisions and takes up the functional duties of chief executive officer. The division of responsibilities of chairman and chief executive of the Company is clearly established and set out in writing.

BOARD COMMITTEES

The Board has established four Board committees with defined terms of reference, namely Audit and Risk Committee, Remuneration Committee, Nomination Committee and Finance Committee, for overseeing particular aspects of the Company's affairs. The Company has also set up an Investment Sub-Committee under the Finance Committee to oversee the formulation of investment strategy for the Company.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee was established to review the financial information of the Group, oversee the Group's financial reporting system, risk management and internal control systems, and assist the Board and its Chairman in performing the corporate governance functions of the Company. The Audit and Risk Committee also reviews the relationship with the external auditor including but not limited to their work, fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditor.

The Audit and Risk Committee consists of three members, namely Professor Gary C. BIDDLE ("Professor BIDDLE"), Dr. Roger L. McCARTHY and Mr. David J. SHAW, all of whom are INEDs. The Chairman of the Audit and Risk Committee is Professor BIDDLE who possesses appropriate professional qualifications, accounting and related financial management expertise.

The Audit and Risk Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018, including the accounting principles and practices and internal control systems adopted by the Company, in conjunction with the Company's external auditor. The Audit and Risk Committee has no disagreement with the accounting treatment adopted.

REMUNERATION COMMITTEE

The Remuneration Committee was established to evaluate the performance of the Directors and senior management and make recommendations on their remuneration packages, and to evaluate and make recommendations on employee benefit arrangements.

The Remuneration Committee consists of three members, namely Dr. William K. L. FUNG ("Dr. FUNG"), Mr. LO and Professor BIDDLE. Dr. FUNG and Professor BIDDLE are INEDs. The Chairman of the Remuneration Committee is Dr. FUNG.

NOMINATION COMMITTEE

The Nomination Committee was established to review the structure, size and composition of the Board and the Board Diversity Policy, identify individuals suitably qualified to become members of the Board, and assess the independence of INEDs.

The Nomination Committee consists of three members, Mr. LO, Sir John R. H. BOND ("Sir John BOND") and Professor BIDDLE. Sir John BOND and Professor BIDDLE are INEDs. The Chairman of the Nomination Committee is Mr. LO.

FINANCE COMMITTEE

The Finance Committee was established to stipulate and monitor the financial strategies, policies and guidelines of the Group. An Investment Sub Committee was established under the Finance Committee for the performance of certain duties of the Finance Committee.

The Finance Committee currently consists of seven members, namely Mr. LO, Mr. Frankie Y. L. WONG ("Mr. WONG"), Sir John BOND, Dr. FUNG, Professor BIDDLE, Mr. Anthony J. L. NIGHTINGALE ("Mr. NIGHTINGALE") and Mr. Douglas H. H. SUNG. Sir John BOND, Dr. FUNG, Professor BIDDLE and Mr. NIGHTINGALE are INEDs. The Chairman of the Finance Committee is Mr. LO and the Vice Chairman of the Finance Committee is Mr. WONG.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

The Directors are continually updated on legal and regulatory developments, as well as business and market changes, in order to facilitate the discharge of their responsibilities. During the six months ended 30 June 2018, the Directors attended three training sessions organised by the Company.

In addition, individual Directors participated in forums and workshops organised by external professionals for continuous professional development.

ANNUAL GENERAL MEETING

To enhance communications with shareholders at the Company's Annual General Meeting, the conducting language is Cantonese with simultaneous interpretation in English. The Chairman of the Board, most of the Directors, the Chairmen of the Audit and Risk Committee, the Remuneration Committee, the Nomination Committee and the Finance Committee or in their absence, another member of the committees and the external auditor were present at the Annual General Meeting held on 16 May 2018 and the meeting provided a useful forum for shareholders to exchange views with the Board.

PURCHASE, SALE OR REDEMPTION/CANCELLATION OF LISTED SECURITIES

On 10 June 2014, Shui On Development (Holding) Limited ("SODH") issued USD550 million in 9.625% senior notes due 2019 (the "2019 SODH Notes"). On 28 December 2017, SODH partially redeemed USD300 million of the outstanding 2019 SODH Notes with the aggregate principal amount of USD550 million on a pro rata basis and paid the redemption price plus the accrued and unpaid interest. Upon such redemption, the outstanding principal amount of 2019 SODH Notes was USD250 million. On 22 January 2018, SODH further redeemed the outstanding 2019 SODH Notes with the aggregate principal amount of USD250 million and paid the redemption price plus the accrued and unpaid interest. Upon completion of the redemption, the 2019 SODH Notes were cancelled.

On 19 May 2014, SODH issued USD637,027,000 in 8.700% senior notes due 2018 (the "2018 SODH Notes"). SODH had fully repaid the principal amount of the outstanding 2018 SODH Notes together with the accrued and unpaid interest upon its maturity on 19 May 2018.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

On 19 May 2014, a written agreement (the "2018 SODH Indenture") was entered into between the Company as guarantor, SODH as issuer and DB Trustee (Hong Kong) Limited ("DB") as trustee of the 2018 SODH Notes, pursuant to which the 2018 SODH Notes was issued. The 2018 SODH Indenture provides that upon the occurrence of a change of control (as defined in the 2018 SODH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2018 SODH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 20 May 2014. SODH had fully repaid the principal amount of the outstanding 2018 SODH Notes together with the accrued and unpaid interest upon its maturity on 19 May 2018.

On 10 June 2014, a written agreement (the "2019 SODH Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the 2019 SODH Notes issued by SODH, pursuant to which the 2019 SODH Notes were issued. The 2019 SODH Indenture provides that upon the occurrence of a change of control (as defined in the 2019 SODH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2019 SODH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 11 June 2014. On 28 December 2017, SODH partially redeemed USD300 million of the outstanding 2019 SODH Notes with the aggregate principal amount of USD550 million on a pro rata basis and paid the redemption price plus the accrued and unpaid interest. Upon such redemption, the outstanding principal amount of 2019 SODH Notes was USD250 million. On 22 January 2018, SODH further redeemed the outstanding 2019 SODH Notes with the aggregate principal amount of USD250 million and paid the redemption price plus the accrued and unpaid interest. Upon completion of the redemption, the 2019 SODH Notes were cancelled.

On 5 October 2016, a written agreement (the "2019 Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD250 million in 4.375% senior notes due 2019 issued by SODH (the "2019 Notes"), pursuant to which the 2019 Notes were issued. The 2019 Indenture provides that upon the occurrence of a change of control (as defined in the 2019 Indenture), the Company or SODH will make an offer to repurchase all outstanding 2019 Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 6 October 2016.

On 6 February 2017, a written agreement (the "2021 Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD500 million in 5.70% senior notes due 2021 issued by SODH (the "2021 Notes"), pursuant to which the 2021 Notes were issued. The 2021 Indenture provides that upon the occurrence of a change of control (as defined in the 2021 Indenture), the Company or SODH will make an offer to repurchase all outstanding 2021 Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 7 February 2017.

On 24 April 2017, SODH entered into a facility agreement with China CITIC Bank International Limited (the "Facility Agreement") whereby SODH was granted a two-year term loan facility of HKD400 million (the "Facility") for refinancing of the existing facility. Pursuant to the Facility Agreement, there is a requirement that Mr. Lo (i) beneficially owns at least 35% of the issued share capital of the Company and be the single largest shareholder of the Company; (ii) be the Chairman of the Company and (iii) maintains management control of the Company. Details of the transaction were set out in the announcement of the Company dated 5 May 2017.

On 20 June 2017, a written agreement (the "2022 Trust Deed") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the USD600 million in 6.40% senior perpetual capital securities callable 2022 issued by SODH (the "Senior Perpetual Securities"), pursuant to which the Senior Perpetual Securities were issued. The 2022 Trust Deed provides that upon the occurrence of a change of control (as defined in the 2022 Trust Deed), SODH may at its option, redeem in whole but not in part the Senior Perpetual Securities at (i) their applicable early redemption amount (as defined in the 2022 Trust Deed) if such redemption occurs prior to 20 June 2022; or (ii) their principal amount, together with any distribution accrued to the date fixed for redemption (including any arrears of distribution and any additional distribution amount), if such a redemption occurs on or after 20 June 2022. Details of the transaction were set out in the announcement of the Company dated 20 June 2017.

On 2 March 2018, a written agreement (the "2021 CNH Indenture") was entered into between the Company as guarantor, SODH as issuer and DB as trustee of the RMB1,600 million in 6.875% senior notes due 2021 issued by SODH (the "2021 CNH Notes"), pursuant to which the 2021 CNH Notes were issued. The 2021 CNH Indenture provides that upon the occurrence of a change of control (as defined in the 2021 CNH Indenture), the Company or SODH will make an offer to repurchase all outstanding 2021 CNH Notes, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, at the date of repurchase. Details of the transaction were set out in the announcement of the Company dated 2 March 2018. On 19 April 2018, the Company and SODH entered into a purchase agreement with Standard Chartered Bank in connection with the further issue of RMB600 million in 6.875% senior notes due 2021 (the "Additional Notes"), consolidated and formed a single series with the 2021 CNH Notes. The Additional Notes were issued pursuant to the 2021 CNH Indenture. Details of the transaction are set out in the announcement of the Company dated 26 April 2018.

Any breach of the above obligations will cause a default in respect of the 2019 Notes, the 2021 Notes, the Facility, the Senior Perpetual Securities and the 2021 CNH Notes may trigger cross defaults in other outstanding debts of the Group, in the aggregate amount of approximately RMB11,482 million at 30 June 2018.

UPDATE ON INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, an update on the biographical details of the Directors of the Company are as follows:

Name of Directors	Details of Changes
Mr. LO	– was appointed as Member of the Board of Directors of Boao Forum for Asia in April 2018.
Mr. NIGHTINGALE	– was appointed as a member of The HKSAR Chief Executive's Council of Advisers on Innovation and Strategic Development on 21 March 2018. – was appointed as a member of a Hong Kong representative to the APEC Vision Group on 21 February 2018.
Dr. FUNG	– resigned as a Non-executive Director of Trinity Limited on 18 April 2018.

Save as disclosed above, after having made all reasonable enquiries, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's annual report 2017.

EMPLOYEES AND REMUNERATION POLICY

As of 30 June 2018, the number of employees in the Group was 3,039 (31 December 2017: 3,219); which included the headcount of China Xintiandi at 444 (31 December 2017: 435), the headcount of the property management business at 1,528(31 December 2017: 1,635), the headcount of the construction and fitting out business at 253 (31 December 2017: 266). The Group provides a comprehensive benefits package for all employees as well as career development opportunities. This includes retirement schemes, share option scheme, medical insurance, other insurances, in-house training, on-the-job training, external seminars, and programs organised by professional bodies and educational institutes. The Group strongly believes in the principle of equality of opportunity. The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competency displayed in achieving our corporate goals.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Vincent H. S. LO (Chairman)
Mr. Douglas H. H. SUNG
(Managing Director and Chief Financial Officer)
Ms. Stephanie B. Y. LO

NON-EXECUTIVE DIRECTOR

Mr. Frankie Y. L. WONG

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sir John R. H. BOND
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Dr. Roger L. McCARTHY
Mr. David J. SHAW
Mr. Anthony J. L. NIGHTINGALE

AUDIT AND RISK COMMITTEE

Professor Gary C. BIDDLE (Chairman)
Dr. Roger L. McCARTHY
Mr. David J. SHAW

REMUNERATION COMMITTEE

Dr. William K. L. FUNG (Chairman)
Mr. Vincent H. S. LO
Professor Gary C. BIDDLE

NOMINATION COMMITTEE

Mr. Vincent H. S. LO (Chairman)
Sir John R. H. BOND
Professor Gary C. BIDDLE

FINANCE COMMITTEE

Mr. Vincent H. S. LO (Chairman)
Mr. Frankie Y. L. WONG (Vice Chairman)
Sir John R. H. BOND
Dr. William K. L. FUNG
Professor Gary C. BIDDLE
Mr. Douglas H. H. SUNG
Mr. Anthony J. L. NIGHTINGALE

COMPANY SECRETARY

Mr. UY Kim Lun

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Freshfields Bruckhaus Deringer
Mayer Brown JSM

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George Town
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Cayman Islands

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PLACE OF BUSINESS IN HONG KONG

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Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House – 3rd Floor
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P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China Limited
China Development Bank
China Merchants Bank Co., Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank Limited
United Overseas Bank Limited

STOCK CODE

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