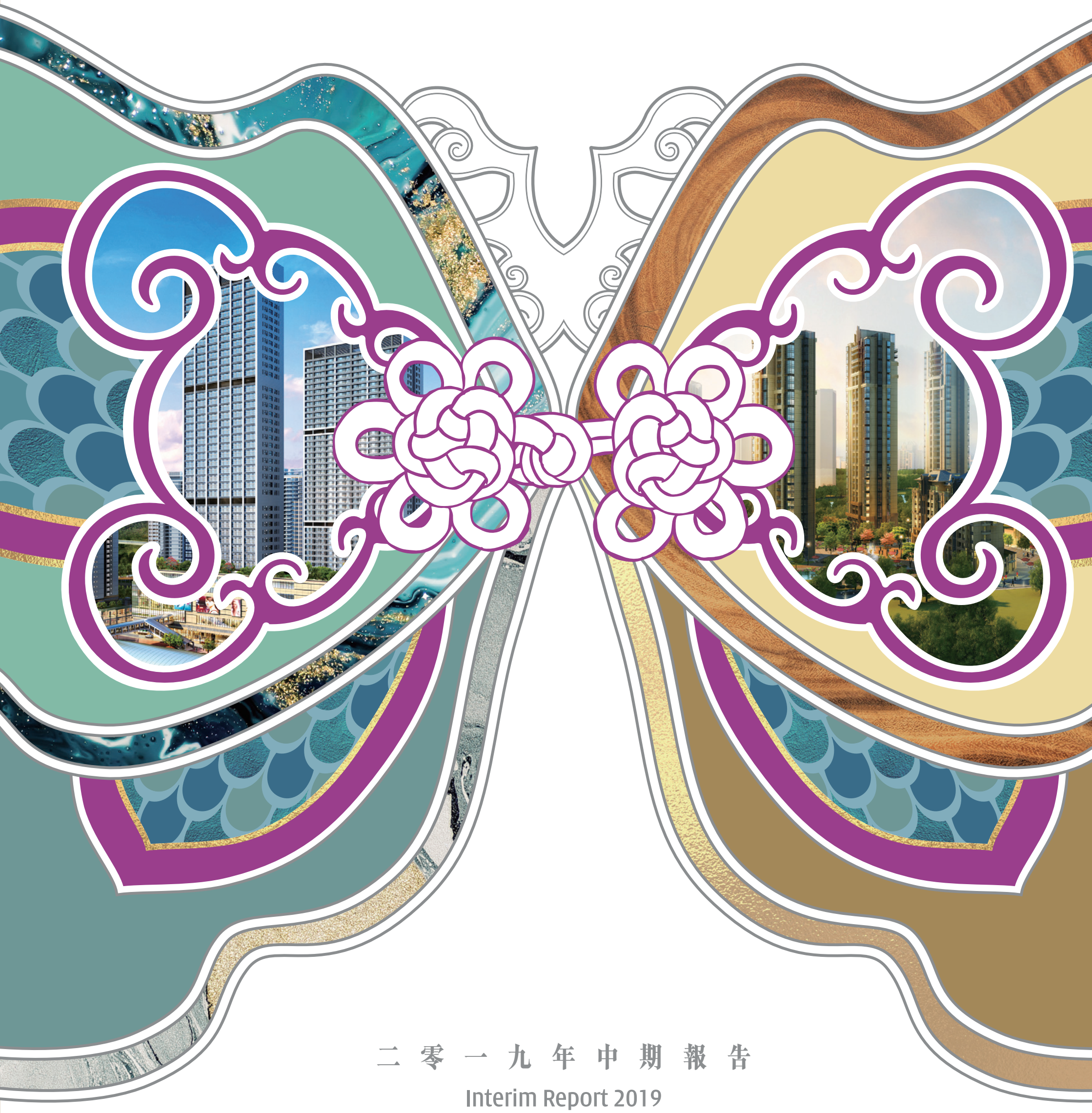
深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

股份代號 Stock Code: 00604



二零一九年中期報告

Interim Report 2019

Contents

Corporate Information

Executive Directors

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

Non-Executive Directors

Dr. WU Jiesi
Mr. LIU Shichao

Independent Non-Executive Directors

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

Company Secretary

Mr. LEE Ka Sze, Carmelo

Auditors

KPMG, *Certified Public Accountants*
Hong Kong

Website

www.shenzheninvestment.com

Principal Bankers

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

Registered Office

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

Share Listing

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

Share Registrar

Tricor Standard Limited
Level 54 Hopewell Centre,
183 Queen's Road East, Hong Kong

Chairman's Statement

In the first half of 2019, the external macro-environment was complicated and challenging amid heightened Sino-US trade friction and rising downward pressure, therefore, developing of macro policies was oriented to maintain steady and stable economic growth. Against such a backdrop, "stabilizing land prices", "stabilizing housing prices" and "stabilizing expectation" had become the keynotes of policy at various local real estate markets. In the first half of the year, with the recovery of the market following real estate control, the liquidity condition was eased to some extent. Thus, there were signs of recovery in the real estate market in the first-tier and second-tier cities, reflected by land market picking up; the market in the third-tier and fourth-tier cities continued to cool down. The overall real estate market in Shenzhen showed a recovery trend, though seen quite a few differences among different businesses and market segments. Boosted by the released rigid demand and improvement demand and the significantly increased supply of new houses, fervent residential transactions were recorded in Shenzhen in the first half of the year, with trading volume increased by 33.5% over the same period of last year and price maintaining stable. Due to the continued effect of the policy prohibiting the sale of apartment products within five years of purchase and the sharp increase in the volume of launched apartments as compared with that of the same period of last year, the apartments market did not follow the residential market to recover. A slow destocking and a slight drop in trading volume over the same period of last year were seen. However, the price remained relatively stable. During the period, the Group endeavored to meet the changes in economic environment and pushed forward various business operations, and its performance was in line with expectation.

2019 Interim Results

During the period, the Group achieved a turnover of HK$4,404.1 million, representing a decrease of 61.0% over the same period of last year. Gross profit was HK$1,481.6 million, representing a decrease of 61.8% over the same period of last year. Net profit attributable to equity shareholders was HK$447.1 million, representing an increase of 105.8% over the same period of last year. If excluding the net effect of the changes in fair value of investment properties attributable to the Group and decrease in fair value of financial assets, net profit attributable to shareholders was HK$568.5 million, representing a decrease of 55.4% over the same period of last year. Basic earnings per share were HK5.31 cents, representing an increase of 96.7% over the same period of last year. The Board has resolved to pay an interim dividend of HK7.00 cents per share for 2019 in cash (with a scrip dividend alternative).

Sales Results in Line with Expectation

During the period, the Group realized contracted sales of approximately RMB6,435.9 million, representing an increase of 49.4% over the same period of last year. Its major projects include Terra Licheng, Shum Yip Zhongcheng, Taifu Square and Shum Yip Dongling in Shenzhen, Ma'anshan Shum Yip Huafu as well as Gaobangshan No.1 and Wanlin Lake in Huizhou. Approximately 75.9% of the Group's contracted sales were contributed by Shenzhen projects. The market condition has improved in the first half of the year. The apartment and office building markets, however remained sluggish, thus posing challenges to our sales efforts in the first half of the year. The Group had overcome various odds to speed up the marketing of residential projects and successfully promoted block sales of office building products at the same time, and achieved sales results in line with expectation.

Expansion of Quality Land Resources

The development of Guangdong-Hong Kong-Macao Greater Bay Area has been formally upgraded to a national strategy. The Group continues to adhere to its development strategy of "focusing on the Greater Bay Area, intensifying development in Shenzhen and expanding land resources". During the period, the Group made proactive efforts to promote cluster development coordination by participating in land auction, deepening collaboration with our parent and strengthening cooperation with government in order to strategically position itself in the Greater Bay Area. The urban redevelopment projects including Chegongmiao and Bagualing Shanglinyuan in Shenzhen have been expedited.

Steady Promotion of Operation Business

During the period, the mixed-ownership reform on the Group's operation business sector progressed steadily. The three asset-light operation and management companies, i.e. operation of wisdom park, commercial operation and property management have initially completed the mixed-ownership reform plan, overcome difficulties and achieved phased results in the mixed-ownership reform work. Benefiting from the vitality brought by mechanism innovation, the Group was able to expand the operation business market in a smooth way. During the period, our property management company obtained further 28 projects, with 2.48 million square meters of management area being added; wisdom park company signed cooperation agreements with Shenzhen Longcheng Industrial Park and Xi'an Lintong Logistics Park (西安臨潼物流園) to realize the expansion of operation business in the wisdom park; and both of the shopping malls, i.e. Tanglang City and Shum Yip Dongling, ushered their opening successfully. During the period, the entrusted construction business progressed effectively as the Group won bids for three projects namely the project of Shapuwei Village, Songgang Town, the project of environment comprehensive treatment alone the Metro Line 11 in Bao'an District and the cultural and sports center project in Longtian Street, Pingshan District.

Healthy Financial Position

The Group further strengthened its integrated fund planning and finance management to improve the capital efficiency. The Group maintained borrowing costs at a low level of 4.2% per annum and also kept gearing ratio at a reasonable level by optimization of loan portfolio. As of 30 June 2019, net gearing ratio (including all interest-bearing liabilities) of the Group was 49.6%.

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

Outlook

With the adjustments at policy and capital level, the real estate market in Shenzhen and part of other cities witnessed a notable rebound in trading volume since the second quarter of 2019. It is expected that both trading volume and price will remain stable in the second half of the year, with the situation varied across market segments. In the long run, the development policy of the real estate industry that "house is a place to live instead of a tool for speculation" will remain unchanged, and the gradually improved long-term effective mechanism will contribute to the healthy and stable development of real estate market. The Group will pay close attention to the changes in policy and market, perfect sales strategies, explore further block trade potential, innovate marketing channels and methods and spare no effort to promote sales. With the launch of new properties and the completion of block trades, the Group is confident that it will achieve its annual sales target of RMB18 billion.

A drop in sales income was recorded during the reporting period because the completion date of sold projects generally fall on the second half of the year, which failed to give an actual reflection of the Company's state of operation. By the end of June this year, the Group had an outstanding balance for sold projects amounted to HK$15.1 billion, which was mainly attributable to projects with higher gross profit margin including Shum Yip Zhongcheng and Taifu Square. Among them, the projects planned to be completed during the year accounted for approximately 70% of the outstanding balance for sold projects. In the second half of the year, the Group will propel the work progress of Shum Yip Zhongcheng, Taifu Square, Ma'anshan Shum Yip Huafu and other key projects to make sure these projects are completed as scheduled, thus generating expected revenue.

The Group will continue to expand its presence in the Guangdong-Hong Kong-Macao Greater Bay Area and intensify its development in Shenzhen, with focus on expansion in the areas of Shenzhen-Hongkong, Guangzhou-Foshan and Dongguan (which is located at the Guangzhou-Shenzhen development axis), and at the same time, keep track of investment opportunities in areas such as Huizhou (the portion adjacent to Shenzhen) and Zhongshan, Shunde at the west bank of Pearl River, etc. Driven by the significantly improved land market since this year, the acquisition of land resources in core cities located in the Greater Bay Area was highly competitive. In light of this, the Group will give full play to its comprehensive advantages on capital, operation, brand and other aspects, to identify various methods of resource exploration proper for its own development, including but not limited to 1) deepening cooperation with the parent company to increase our prime land reserves in Shenzhen and the Greater Bay Area; 2) proactively capturing the historic opportunity of building Pilot Demonstration Zone of Socialism with Chinese Characterics in Shenzhen and the opportunity to participate in the development of Shenfang High-Tech Park in Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone by capitalizing on the Group's footprint in both Shenzhen and Hong Kong, strengthening its cooperation with governments based on its strong abilities in industrial planning and introduction as well as exploring and innovating to identify further methods of resources acquisition for Shenzhen park; and 3) relying on the Group's experience in urban renewal projects and innovating in a flexible way to actively establish presence and identify opportunities for urban renewal projects in Shenzhen and other key cities constituting the Guangdong-Hong Kong-Macao Greater Bay Area.

Subsequent to the official release of "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" (《粵港澳大灣區發展規劃綱要》) at the beginning of this year, its supporting policies in connection with innovation and technology, youth development, talent introduction, interconnection and other aspects are also launched in succession. In the Opinion of the State Council of the CPC Central Committee on Supporting the Building of Shenzhen into a Pilot Demonstration Zone of Socialism with Chinese Characteristics (《中共中央國務院關於支持深圳建設中國特色社會主義先行示範區的意見》) officially released on 18 August, the city function and level of Shenzhen was strategically boosted to a "pilot demonstration zone of socialism with Chinese characteristics" and a "model city in a modernized socialist strong power". With the implementation of interconnection policy and the construction of the innovation ecosystem, Guangdong-Hong Kong-Macao Greater Bay Area will emerge as a vibrant and internationally competitive first-class bay area and world-class city cluster with optimal industrial distribution, rational segregation of duties, complementary strengths and differentiated position. Riding this trend, Shenzhen will be developed into an "innovation-oriented modernized and internationalized city", a "model city in a modernized socialist strong power" and a "worldwide benchmark city with great competition, strong creativity and significant influence". It is foreseeable that, for a period of time in the future, with the implementation of the policies to construct the Pilot Demonstration Zone and the Guangdong-Hong Kong-Macao Greater Bay Area, increasingly more resources will be devoted to basic scientific research, education and medical, urban infrastructure as well as other aspects in Shenzhen, and its aggregation effect on innovative technology industries, capital as well talents at home and abroad will become more prominent. Thus, booming demand for city space such as industrial park, office buildings and living space in Shenzhen will be further released. Therefore, we are fully confident about the sustainable, steady and sound development of the real estate markets in Shenzhen and the Greater Bay Area.

The establishment of the "Pilot Demonstration Zone of Socialism with Chinese Characteristics" is a historic opportunity for Shenzhen's high-quality development. The Group will implement the national strategy for regional development in a proactively manner and take this opportunity to realize a growth that is in line with the economic soar of China and the Greater Bay Area. In the next five years, by firmly sticking to the vision of being a "leader in value creation for urban space", the Group will continue to focus on the Guangdong-Hong Kong-Macao Greater Bay Area and intensify its development in Shenzhen. Meanwhile, the Group will attach equal importance to the strategy of property development and sales and property holding and operation by maintain a sound and healthy growth in development and sales volume, appropriately expanding the size of investment properties held for commercial purpose and optimizing its investment property portfolio, so as to continuously explore and improve asset quality and returns. Furthermore, the Group will speed up the development of motivation and restriction mechanism that stimulates internal impetus, establish an operating service platform with core competitiveness, create new model of industrial introduction for the pilot demonstration zone, give full play of its advantage in urban function upgrading and improve the value of urban spaces with the concept of smart industry (智慧園區), smart business (智慧商業) and smart life (智慧人居).

I believe, through unremitting efforts, the Group is expected to materialize the upgrading of its strategic position from a "real estate developer" to an "operation service provider for urban construction" gradually, achieve a sound, sustainable and steady development and create sustainable and handsome returns for its shareholders.

LU HUA
Chairman

27 August 2019

Management Discussion and Analysis

Overall Results

In the first half of 2019, the external macro-environment was complicated and challenging. Against the backdrop of the Sino-US trade frictions, maintaining a stabilized economic growth was the keynote of the macro-policy. The real estate market of China remained under stringent regulatory control. In the first half of the year, with the recovery of the market following real estate control, the liquidity condition was eased to some extent. Thus, there were signs of recovery in the real estate market in the first-tier and second-tier cities, reflected by land market picking up; the market in the third-tier and fourth-tier cities continued to cool down. The overall real estate market in Shenzhen showed a recovery trend, though seen quite a few differences among different business markets. Facing the uncertain market environment, the Group endeavored to push forward various business operations and maintain stable performance.

The Group realized revenue of approximately HK$4,404.1 million, representing a decrease of 61.0% over the same period of last year. Gross profit margin was 33.6%, representing a decrease of approximately 0.7 percentage points over the same period of last year. Gross profit was HK$1,481.6 million, representing a decrease of 61.8% over the same period of last year. Net profit attributable to equity shareholders was HK$447.1 million, representing an increase of 105.8% over the same period of last year. If excluding the net effect of changes in fair value of investment properties attributable to the Group and changes in fair value of financial assets, net profit attributable to shareholders was HK$568.5 million, representing a decrease of 55.4% over the same period of last year. Basic earnings per share were HK5.31 cents, representing an increase of 96.7% over the same period of last year.

Property Development Business

Sales Revenue Booked

Since the completion date of sold projects generally fall on the second half of year, a drop in sales income was recorded during the period. The Group recorded property sales booked of approximately 164,000 square meters (excluding interests attributable to the major associates of the Group), representing a decrease of 52.2% over the same period of last year, and achieved net revenue in property sales of approximately RMB2,052.4 million (equivalent to HK$2,372.1 million) (net of value-added tax), representing a decrease of 74.5% over the same period of last year. Gross profit margin of property development was 37.7%, representing an increase of 1.4 percentage points over the same period of last year. During the period, the percentage of Shenzhen projects over the sales revenue booked was 37.9%. During the period, the average gross profit margin for Shenzhen projects of the Group was approximately 47.8%, whereas the average gross profit margin for projects in other cities was approximately 31.5%.

Property Sales Booked in the First Half of 2019

Property Name	Type	City	Booked Area *(sq.m.)*	Net Sales *(RMB'000)*	Unit Price *(RMB/sq.m.)*
Garden Hills	Residential/shop	Huizhou	4,504	51,210	11,370
Wanlin Lake	Shop	Huizhou	209	2,231	10,676
Splendid City	Residential	Taizhou	2,332	16,374	7,022
Euro-view Garden	Shop	Dongguan	680	6,754	9,933
Shum Yip City	Residential	Foshan	38	525	13,808
Jiangyue Bay	Residential	Guangzhou	257	4,408	17,151
Nanhu Rose Bay	Residential/shop	Wuhan	1,017	6,170	6,066
Yihu Rose Garden	Residential	Chengdu	31,391	228,994	7,295
Changzhou Shum Yip Huafu	Residential	Changzhou	913	5,163	5,655
Ma'anshan Shum Yip Huafu	Residential	Ma'anshan	102,585	780,847	7,612
UpperHills	Apartment	Shenzhen	934	115,406	123,561
Royal Spring Garden	Villa	Chaohu	7,606	108,164	14,221
Shum Yip Dongling	Residential	Shenzhen	9,356	640,069	68,413
Bofeng Building	Office	Shenzhen	619	22,621	36,544
Xiaonan Street	Residential	Shenyang	1,064	7,923	7,446
Parking place sales*	Parking place		–	55,524	–
Total			**163,505**	**2,052,383**	

* 439 parking spaces were sold.

Contracted Sales

During the period, the Group realized contracted sales area of approximately 235,000 square meters and contracted sales income of approximately RMB6,435.9 million, representing an increase of approximately 49.4% over the same period of last year. The average price per square meter was RMB27,434. Of these, Terra Licheng, Shum Yip Dongling, Ma'anshan Shum Yip Huafu, Changsha Shum Yip Xihui, Chaohu Royal Spring Garden achieved satisfactory sales.

By geographical location, projects in the Greater Bay Area accounted for 86% of the realized contracted sales, 5% was contributed by projects in the second-tier cities, and the rest 9% was in the third-tier and fourth-tier cities. By the types of products, residential products accounted for 47% of the realized contracted sales, and commercial products (including office and apartment) accounted for 53%.

Contracted Sales in the First Half of 2019

Project Name	City	Type	Sales Area (sq.m.)	Sales (Note) (RMB million)
Shum Yip Dongling	Shenzhen	Complex	21,250	1,501
Shum Yip Zhongcheng	Shenzhen	Complex	4,514	499
Changzhou Shum Yip Huafu	Changzhou	Residential	772	3
Ma'anshan Shum Yip Huafu	Ma'anshan	Residential	53,954	486
Jiangyue Bay*	Guangzhou	Residential	–	2
Saina Bay	Heyuan	Residential	1,162	12
Gaobangshan No. 1	Huizhou	Residential	28,200	280
Shum Yip City	Foshan	Residential	7,683	162
Euro-view Garden	Dongguan	Residential	1,693	31
Garden Hills	Huizhou	Residential	17,991	163
Wanlin Lake	Huizhou	Residential	1,782	26
Rui Cheng	Changsha	Residential	5,898	49
Shum Yip Xihui	Changsha	Residential	22,308	173
Bofeng Building	Shenzhen	Industry	620	22
Taifu Square	Shenzhen	Complex	2,772	175
Yihu Rose Garden	Chengdu	Residential	6,905	57
Terra Licheng	Shenzhen	Complex	48,557	2,480
Nanhu Rose Bay	Wuhan	Complex	1,120	17
Royal Spring Garden	Chaohu	Residential	4,646	89
UpperHills	Shenzhen	Complex	467	63
Tanglang City**	Shenzhen	Complex	2,305	146
Total			**234,599**	**6,436**

* All are parking space sales.

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

Note: Including parking space sales.

Project Development

During the period, the Group had a new construction area of approximately 718,000 square meters, and a completed area of approximately 90,000 square meters.

New Construction Projects in the First Half of 2019

Project Name	City	Type	Total GFA *(sq.m.)*	Saleable Area *(sq.m.)*
Foshan Nanhai Lishui Land Site	Foshan	Residential	79,094	51,758
Changsha Yuelu Yanghu Project	Changsha	Residential	242,577	183,561
Splendid City Phase 3	Taizhou	Residential	182,310	136,767
Nanjing Jiangning Tianyou Road (Land Plot G72)	Nanjing	Residential	111,200	69,494
Nanjing Jiangning Qinglong Subway Town (Land Plot G78)	Nanjing	Residential	102,660	71,455
Total			**717,841**	**513,035**

Completed Projects in the First Half of 2019

Project Name	City	Type	Total GFA *(sq.m.)*	Saleable Area *(sq.m.)*
Chengdu Jinxiu Workshop (South)	Chengdu	Commercial	11,263	6,735
Yihu Rose Garden Phase 1.2 – Longxi	Chengdu	Residential	67,221	49,354
Chaohu South Phase 1	Chaohu	Residential	5,508	5,063
Chaohu North Phase 4.2	Chaohu	Residential	6,406	6,144
Total			**90,398**	**67,296**

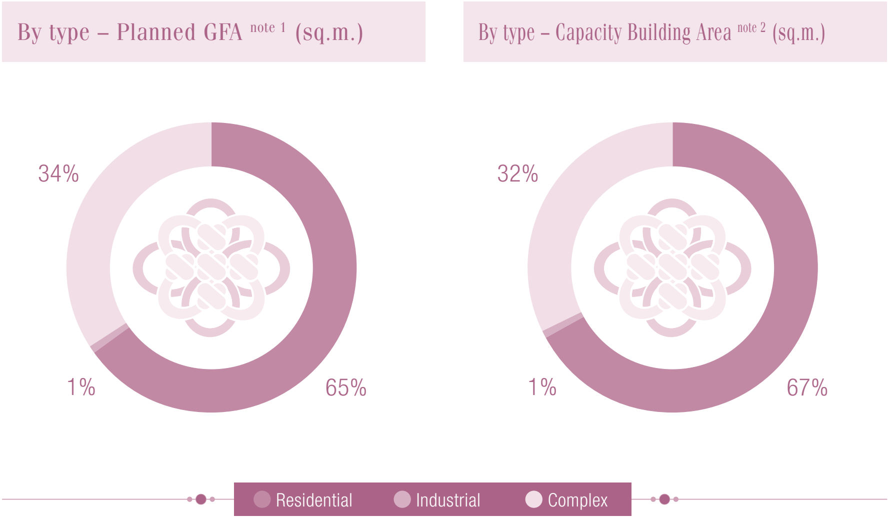
Land Reserves

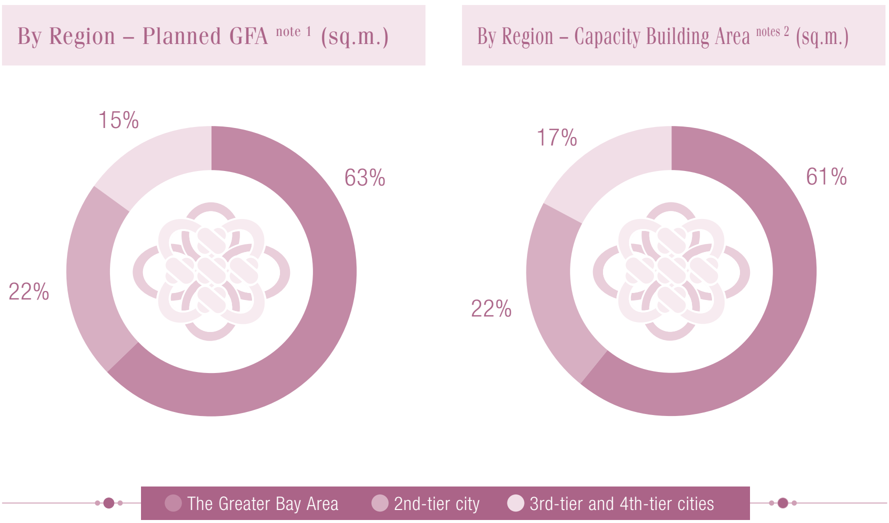
By the end of June 2019, the Group had land reserves with an aggregate planned gross floor area (GFA) of approximately 6.15 million square meters (of which the Group was interested in 5.40 million square meters), and a capacity building area of 4.56 million square meters (of which the Group was interested in 4.05 million square meters), of which, the projects under construction had a total planned GFA of approximately 3.86 million square meters and a capacity building area of 2.82 million square meters.

The Group proposed the strategic layout of focusing on the Greater Bay Area in 2017. Against such background, its assets structure was comprehensively optimized by acquiring a number of land projects located at Tuen Mun (Hong Kong), Shenzhen, Foshan and other cities in the Greater Bay Area through various ways, whilst disposing of ineffective projects in the third-tier and fourth-tier cities successively. The capacity building area of land reserve in Shenzhen, the Greater Bay Area and the first-tier and second-tier cities accounted for 39%, 61% and 62% of its total capacity building area respectively.

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

Distribution of Land Reserves (As at 30 June 2019)





Note:

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

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

Property Investment

As at 30 June 2019, the Group has investment properties of approximately 1.16 million square meters, 83.6% of which are located in Shenzhen. During the period, the Group recorded rental income of approximately HK$504.4 million, representing an increase of approximately 14.8% over the same period of last year. The gross profit margin of property investment business was approximately 77.7%, representing an increase of 2.1 percentage points over the same period of last year. The Group recorded a revaluation gain in its investment property portfolio of HK$93.1 million through profit or loss for the period. Revenue from and scale of the Group's investment properties are expected to increase significantly with the completion of UpperHills and Taifu Square projects and tenant solicitation.

Asset – Light Operation Businesses

The Group commenced the mixed-ownership reform on its operation business segment in an overall manner in 2018. During the period, the mixed-ownership reform progressed steadily. The three asset-light operation and management companies, i.e. commercial operation, operation of wisdom park and property management have initially completed the mixed-ownership reform plan, overcome difficulties and achieved phased results in the mixed-ownership reform work.

Commercial Operation Business

In 2018, the commercial area of UpperHills ushered in its grand opening, attracting a number of internationally known food & beverage and retail merchants opening their flagship or first shops in China, which greatly boosts the brand influence of UpperHills. With the completion of the construction of Lianhuashan corridor bridge and opening of Yokocho Japanese restaurants street, the passenger flow volume of the shopping mall has been significantly improved. Meanwhile, various marketing activities have been well-received by both consumers and merchants and the overall revenue of merchants is showing a growing trend.

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

Property Management Business and Wisdom Park Operation and Management Business

Properties under the management of our property management company exceed 36.04 million square meters, mainly in the Pearl River Delta, Yangtze River Delta and Central China, covering governmental authorities, offices, residence communities and villas. Benefitted from the mixed-ownership reform, the property management company acquired 28 new projects of 2.48 million square meters during the period, beating its expectation.

The Wisdom Park Operation and Management Company manages over 2.12 million square meters of properties which are mainly located in the Guangdong-Hong Kong-Macao Greater Bay Area. During the period, the Wisdom Park Operation and Management Company entered into a cooperation agreement with Shenzhen Longcheng Industry Park, Xi'an Lintong Logistics Park respectively, realizing expansion of its wisdom park operation and management business.

During the period, the property management business contributed approximately HK$935.5 million to the revenue of the Group, representing an increase of 2.8% over the same period of last year.

Hotel Operation Business

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

During the period, the four hotels in operation recorded operating income (included under other operating segment) of approximately HK$99.4 million, representing a decrease of 8.0% over the same period of last year.

Manufacturing Business

The Group's manufacturing business mainly represents the LCD manufacturing business held by the companies under the Group over the years. During the period, the manufacturing business recorded operating income of approximately HK$146.4 million, representing a decrease of 8.9% over the same period of last year.

Performance of Joint Ventures

During the period, Taizhou Shum Yip Investment Development Limited (a 51% owned company of the Group) incurred a loss of HK$9.5 million to the Group. The principal activity of the company is to assist local government in primary land development, and the local government had not arranged for the launch of relevant lands during the period.

Shenzhen Langtong Property Development Company Limited (a 50% owned company of the Group) made a net profit contribution of HK$50.7 million for the period, representing a decrease of 40.2% over the same period of last year. The company and Shenzhen Metro Group jointly developed Shenzhen's Tanglang City Project.

Shenzhen Tianan Cyber Park (Group) Co., Ltd. made a net profit contribution of HK$119.8 million to the Group, representing an increase of 165.6% over the same period of last year.

Performance of Associates

During the period, the associates invested by the Group performed as expected. Of these, Road King Infrastructure Limited, a listed company in Hong Kong, made a net profit contribution of HK$234.5 million to the Group, representing an increase of 7.5% over the same period of last year. Coastal Greenland Limited, a listed company in Hong Kong, incurred a loss of HK$18.8 million to the Group, compared with a loss of HK$58.9 million for the same period of last year.

Investment in Hengda Real Estate

On 31 May 2017, the Group, through Shenzhen Shum Yip Shenheng Investment Co., Ltd. (深圳市深業深恒投資有限公司) ("Shum Yip Shenheng", formerly known as 馬鞍山市茂文科技工業園有限公司 (Maanshan Maowen Technology Park Co. Ltd.)), a wholly owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate") and Hengda Real Estate Group Company Limited ("Hengda Real Estate") (both being subsidiaries of China Evergrande Group) to contribute an amount of RMB5.50 billion to the capital of Hengda Real Estate in exchange for 1.7626% equity interests in Hengda Real Estate. The equity interests held by the Group in Hengda Real Estate was accounted for as financial assets at fair value through profit or loss in the Group's consolidate statement of financial position, with changes in fair value recognised in profit or loss for the period.

As at 30 June 2019, the decrease in fair value of the investments in Hengda Real Estate amounted to approximately HK$239.3 million.

Under the terms of the Investment Agreement, Kailong Real Estate and Hengda Real Estate have undertaken that the net profit of Hengda Real Estate for 2017, 2018 and 2019 shall not be less than RMB24.3 billion, RMB50.0 billion and RMB55.0 billion, respectively. Hengda Real Estate will distribute at least 68% of its net profit under the performance undertaking period to its shareholders in cash, till the entering into a reorganization agreement (i.e. the listing of Hengda Real Estate in China as an A-share company through reorganization of Shenzhen Special Economic Zone Real Estate and Properties (Group) Co. Ltd.).

Additionally, under the Investment Agreement, if the abovementioned proposed reorganization is not completed by 31 January 2020, Shum Yip Shenheng will have the right to demand Kailong Real Estate or Mr. Hui Ka Yan, the controlling shareholder of China Evergrande Group, to buy back the entire equity interest in Hengda Real Estate held by it at its original investment cost, or demand Kailong Real Estate to transfer 50% of the equity interest then held by Shum Yip Shenheng in Hengda Real Estate (excluding any additional equity interest acquired by Shum Yip Shenheng subsequent to the date of the Investment Agreement) to Shum Yip Shenheng at nil consideration as compensation.

Financing

As at 30 June 2019, the Group's total bank and other borrowings amounted to HK$25,210.6 million (31 December 2018: HK$25,260.8 million), of which HK$19,323.7 million were floating-rate loans, and the remaining were fixed-rate loans. Long-term loans amounted to HK$16,051.8 million, representing approximately 63.7% of total borrowings, and short-term loans were HK$9,158.8 million, representing approximately 36.3% of total borrowings. Borrowings from Hong Kong amounted to HK$12,533.7 million, representing approximately 49.7% of total borrowings, and the remaining were borrowings from mainland China, representing approximately 50.3% of total borrowings. During the period, the average comprehensive interest rate of the Group in respect of its bank and other borrowings was approximately 4.2% per annum, representing a decrease of 0.6 percentage point from the full-year average of last year.

As at 30 June 2019, the Group's cash balance (including restricted cash) was HK$11,701.6 million (31 December 2018: HK$12,655.2 million), of which approximately 96.2% and 3.8% were denominated in Renminbi and HK$ respectively.

As at 30 June 2019, the Group had net assets (excluding non-controlling interests) of HK$41,070.9 million (31 December 2018: HK$41,704.0 million). The net gearing ratio with the liabilities including bank loans and other borrowings only was 32.9% and the net gearing ratio with the liabilities including loan from shareholder of the parent and all other interest-bearing liabilities was 49.6%, representing a decrease of 4.6 percentage points over the end of last year. The gross gearing ratio (being the ratio of total liabilities over total assets) was 61.9%.

Key Financial Position

HK$ million	As at 30 June 2019	As at 31 December 2018
Bank and other borrowings	**25,210.6**	25,260.8
– Long-term borrowings	**16,051.8**	19,362.2
– Short-term borrowings	**9,158.8**	5,898.5
Due to the ultimate holding company	**2,767.2**	4,735.0
Cash (including restricted cash)	**11,701.6**	12,655.2
Net gearing ratio with the liabilities including bank and other borrowings only	**32.9%**	30.2%
Net gearing ratio with the liabilities including all interest-bearing liabilities	**49.6%**	54.2%

Effect of Exchange Rate Fluctuation

The Group's assets are mainly denominated in Renminbi. 50.3% of the bank and other borrowings are denominated in Renminbi, while 49.7% are denominated in HK$. HK$ is adopted as the reporting currency in the Group's financial statements. The effect of the decrease in RMB exchange rate on the Group's finance was mainly reflected in the depreciation of the asset and earnings denominated in Renminbi against HK$, the reporting currency. During the period, such changes in the asset and earnings denominated in Renminbi against HK$, the reporting currency resulted in a decrease of HK$212.1 million in other comprehensive income. The Group will closely monitor and proactively avert foreign exchange risk through various ways.

Pledge of Assets and Contingent Liabilities

As at 30 June 2019, the Group had total loans of HK$517.6 million (31 December 2018: HK$373.3 million) that were pledged with assets (please refer to note 19 to the interim financial report for details).

As at 30 June 2019, the Group has given guarantees amounted to RMB1,483.4 million in respect of bank loans and other borrowings to Guangzhou Pik Sum Real Estate Development Company Limited and Taizhou Shum Yip Investment Development Limited, both are joint ventures of the Group (please refer to note 25 to the interim financial report for details).

Employees and Remuneration Policy

As at 30 June 2019, the Group employed 18,950 employees (30 June 2018: 18,548) of whom 40 were stationed in Hong Kong (mainly managerial and finance related personnel), and the rest were in mainland China. The total remuneration for the six months ended 30 June 2019 (excluding remuneration of the Directors) amounted to approximately HK$810.7 million (six months ended 30 June 2018: HK$726.9 million).

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

Report on Review of Interim Financial Report

KPMG

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

Introduction

We have reviewed the interim financial report set out on pages 24 to 79 which comprises the consolidated statement of financial position of Shenzhen Investment Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2019

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018 (Note)
	Note	**$'000**	$'000
Revenue	5	**4,404,114**	11,304,212
Cost of sales		**(2,922,536)**	(7,422,740)
Gross profit		**1,481,578**	3,881,472
Other income and gains	5	**232,903**	165,485
Decrease in fair value of financial assets at fair value through profit or loss, net	16	**(236,765)**	(1,887,873)
Increase in fair value of investment properties		**66,595**	478,600
Recognition of change in fair value upon transfer to investment properties		**26,552**	–
Selling and distribution expenses		**(97,750)**	(84,371)
Administrative expenses		**(377,805)**	(394,680)
Other operating expenses		**(105,010)**	(232,716)
Finance costs	6	**(366,915)**	(359,208)
Share of profits less losses of joint ventures and associates		**426,236**	295,024
Profit before taxation	7	**1,049,619**	1,861,733
Income tax expense	8	**(494,310)**	(1,544,663)
Profit for the period		**555,309**	317,070
Attributable to:			
Equity shareholders of the Company		**447,067**	217,266
Non-controlling interests		**108,242**	99,804
		555,309	317,070
Earnings per share	9		
Basic		**HK 5.31 cents**	HK2.70 cents
Diluted		**HK 5.31 cents**	HK2.69 cents

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

The notes on pages 31 to 79 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018 (Note)
	$'000	$'000
Profit for the period	**555,309**	317,070
Other comprehensive income for the period:		
Items that will not be reclassified subsequently to profit or loss:		
– Surplus on revaluation of investment property transferred from property, plant and equipment:		
– Changes in fair value	**28,313**	–
– Income tax effect	**(7,078)**	–
	21,235	–
Items that may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of joint ventures and associates	**4,632**	(29,403)
– Exchange fluctuation reserve released upon disposal of subsidiaries	**–**	6,830
– Exchange differences on translation of foreign operations	**(212,099)**	(515,704)
	(207,467)	(538,277)
Other comprehensive income for the period, net of tax	**(186,232)**	(538,277)
Total comprehensive income for the period	**369,077**	(221,207)
Attributable to:		
Equity shareholders of the Company	**274,512**	(288,602)
Non-controlling interests	**94,565**	67,395
Total comprehensive income for the period	**369,077**	(221,207)

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

The notes on pages 31 to 79 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2019 $'000	At 31 December 2018 (Note) $'000
Non-current assets			
Property, plant and equipment	11	**4,903,640**	4,666,465
Prepaid land lease payments		**33,748**	34,455
Goodwill		**365,483**	366,929
Investment properties	12	**29,649,287**	29,143,111
Interests in associates	14	**5,000,325**	4,951,156
Interests in joint ventures	15	**6,106,962**	6,215,166
Other financial assets	16	**8,610,197**	9,077,347
Deferred tax assets		**2,017,355**	2,072,491
		56,686,997	56,527,120
Current assets			
Biological assets		**1,838**	1,537
Completed properties held for sale		**5,619,246**	6,265,723
Properties under development	13	**38,120,273**	38,097,509
Inventories		**195,133**	131,885
Trade receivables	17	**597,965**	578,468
Prepayments, deposits and other receivables		**4,486,293**	3,759,648
Other financial assets	16	**332,169**	3,068
Restricted cash	18	**2,155,283**	2,822,965
Cash and cash equivalents	18	**9,546,339**	9,832,226
		61,054,539	61,493,029
Current liabilities			
Interest-bearing bank loans and other borrowings		**9,158,729**	5,898,502
Lease liabilities	3(d)	**103,727**	–
Trade payables	20	**1,766,120**	1,956,668
Other payables and accruals		**11,168,150**	12,162,041
Contract liabilities		**15,177,539**	11,232,109
Due to the immediate holding company	26(c)	**1,252,531**	1,233,548
Due to the ultimate holding company	26(c)	**2,767,161**	4,734,953
Tax payable		**6,256,422**	7,251,663
		47,650,379	44,469,484

Consolidated Statement of Financial Position

At 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2019 $'000	At 31 December 2018 (Note) $'000
Net current assets		**13,404,160**	17,023,545
Total assets less current liabilities		**70,091,157**	73,550,665
Non-current liabilities			
Interest-bearing bank loans and other borrowings		**16,051,822**	19,362,263
Lease liabilities	3(d)	**464,776**	–
Deferred income		**22,661**	22,881
Deferred tax liabilities		**8,673,878**	8,721,825
		25,213,137	28,106,969
NET ASSETS		**44,878,020**	45,443,696
CAPITAL AND RESERVES	22		
Share capital		**20,756,084**	20,688,259
Reserves		**20,314,840**	21,015,716
Total equity attributable to equity shareholders of the Company		**41,070,924**	41,703,975
Non-controlling interests		**3,807,096**	3,739,721
TOTAL EQUITY		**44,878,020**	45,443,696

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

The notes on pages 31 to 79 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company										
		Share capital $'000	Other reserve $'000	Share option reserve $'000	Capital reserve $'000	Asset revaluation reserve $'000	Statutory reserve $'000	Exchange fluctuation reserve $'000	Retained Profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 31 December 2018 (note)		20,688,259	(132,447)	89,087	59,019	219,851	3,375,004	(925,421)	18,330,623	41,703,975	3,739,721	45,443,696
Changes in equity for the six months ended 30 June 2019:												
Profit for the period		–	–	–	–	–	–	–	447,067	447,067	108,242	555,309
Other comprehensive income												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(197,019)	–	(197,019)	(15,080)	(212,099)
Surplus on revaluation of investment property transferred from property, plant and equipment		–	–	–	–	19,832	–	–	–	19,832	1,403	21,235
Share of other comprehensive income of an associate		–	–	–	–	–	–	4,632	–	4,632	–	4,632
Total comprehensive income for the period		–	–	–	–	19,832	–	(192,387)	447,067	274,512	94,565	369,077
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary		–	(51,939)	–	–	–	–	–	–	(51,939)	51,939	–
Exercise of share options		67,825	–	(10,096)	–	–	–	–	–	57,729	–	57,729
Lapse of share options		–	–	(9,161)	–	–	–	–	9,161	–	–	–
Equity-settled share option expense	21	–	–	15,054	–	–	–	–	–	15,054	–	15,054
Dividends declared to equity shareholders	10	–	–	–	–	–	–	–	(928,407)	(928,407)	–	(928,407)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(79,129)	(79,129)
Balance at 30 June 2019		20,756,084	(184,386)	84,884	59,019	239,683	3,375,004	(1,117,808)	17,858,444	41,070,924	3,807,096	44,878,020

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company										
	Note	Share capital $'000	Other reserve $'000	Share option reserve $'000	Capital reserve $'000	Asset revaluation reserve $'000	Statutory reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2018		19,712,476	(268,552)	52,330	59,019	219,851	2,987,746	1,714,470	16,783,335	41,260,675	3,583,029	44,843,704
Changes in equity for the six months ended 30 June 2018:												
Profit for the period		–	–	–	–	–	–	–	217,266	217,266	99,804	317,070
Other comprehensive income		-	–	–	–	–	–	(505,868)	–	(505,868)	(32,409)	(538,277)
Total comprehensive income for the period		–	–	–	–	–	–	(505,868)	217,266	(288,602)	67,395	(221,207)
Final 2017 dividends	10	–	–	–	–	–	–	–	(886,449)	(886,449)	–	(886,449)
Exercise of share options		1,371	–	(204)	–	–	–	–	–	1,167	–	1,167
Equity-settled share option expense	21	–	–	20,810	–	–	–	–	–	20,810	–	20,810
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(56,296)	(56,296)
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	(82,261)	(82,261)
Balance at 30 June 2018		19,713,847	(268,552)	72,936	59,019	219,851	2,987,746	1,208,602	16,114,152	40,107,601	3,511,867	43,619,468

The notes on pages 31 to 79 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2019 $'000	2018 (Note) $'000
Operating activities			
Cash generated from operations		**5,165,142**	914,029
Interest paid		**(629,142)**	(635,490)
Tax paid		**(2,432,836)**	(3,845,731)
Net cash generated from/(used in) operating activities		**2,103,164**	(3,567,192)
Investing activities			
Payment for the purchase of property, plant and equipment		**(107,721)**	(137,377)
Other cash flows arising from investing activities		**987,666**	(1,239,926)
Net cash generated from/(used in) investing activities		**879,945**	(1,377,303)
Financing activities			
Proceeds from bank and other borrowings		**3,936,569**	6,864,483
Repayments of bank and other borrowings		**(3,929,733)**	(3,311,007)
Capital element of lease rentals paid		**(53,743)**	–
Dividends paid to non-controlling shareholders		**(79,129)**	(49,249)
Other cash flows arising from financing activities		**(3,103,475)**	(1,730,754)
Net cash (used in)/generated from financing activities		**(3,229,511)**	1,773,473
Net decrease in cash and cash equivalents		**(246,402)**	(3,171,022)
Cash and cash equivalents at 1 January		**9,832,226**	11,167,070
Effect of changes in foreign exchange rate		**(39,485)**	(62,260)
Cash and cash equivalents at 30 June	18	**9,546,339**	7,933,788

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

The notes on pages 31 to 79 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Corporate information

Shenzhen Investment Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 8th Floor, New East Ocean Centre, 9 Science Museum Road, Kowloon, Hong Kong. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are described in note 4.

In the opinion of the directors, the immediate holding company of the Company is Shum Yip Holdings Company Limited ("Shum Yip Holdings", 深業（集團）有限公司), which is a private company incorporated in Hong Kong. The ultimate holding company of the Company is 深業集團有限公司 ("Shum Yip Group"), which is a state-owned company established in Shenzhen, the People's Republic of China (the "PRC").

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 27 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (Continued)

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 22 to 23.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

3 Changes in accounting policies

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

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

HKFRS 16, *Leases*

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

3 Changes in accounting policies (Continued)

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 24(b).

3 Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value;

3 Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

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

3 Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(iv) Lessor accounting

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

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

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

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

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

3 Changes in accounting policies (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, Property, plant and equipment, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies. Specifically, registered ownership interests are carried under the revaluation model, while rights to use properties under tenancy agreements are carried at depreciated cost.

In making this judgement, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the Group's exposure to the property market fluctuation. They may contain termination or extension clauses, and/or variable rental payment clauses linked to the level of sales generated by the Group's use of the premises, and are typically subject to market rent reviews every 1 to 3 years.

3 Changes in accounting policies (Continued)

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies (Continued)

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

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

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

3 Changes in accounting policies (Continued)

(c) Transitional impact (Continued)

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 24(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 **$'000**
Operating lease commitments at 31 December 2018	53,449
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,725)
– leases of low-value assets	(108)
	51,616
Less: total future interest expenses	(3,439)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	48,177

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. There is no impact of the opening balance of equity.

3 Changes in accounting policies (Continued)

(c) Transitional impact (Continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

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

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

3 Changes in accounting policies (Continued)

(c) Transitional impact (Continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 $'000	At 1 January 2019 $'000
Included in "Property, plant and equipment":		
Ownership interests in leasehold land and buildings held for own use, carried at fair value	**1,237,233**	1,306,670
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost	**1,388,602**	1,467,988
Other properties leased for own use, carried at depreciated cost	**371,667**	48,177
Included in "Prepaid land lease payments"		
Prepaid land lease payments	**33,748**	34,455
Included in "Investment properties":		
Ownership interests in leasehold investment properties, carried at fair value	**29,649,287**	29,143,111
Included in "Completed properties held for sale":		
Completed properties held for sale	**5,619,246**	6,265,723
Included in "Properties under development":		
Properties under development	**28,443,315**	29,408,886
	66,743,098	67,675,010

3 Changes in accounting policies (Continued)

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**103,727**	**128,371**	16,480	18,281
After 1 year but within 2 years	**105,330**	**125,021**	15,367	16,508
After 2 years but within 5 years	**313,921**	**351,851**	16,330	16,827
After 5 years	**45,525**	**48,990**	–	–
	464,776	**525,862**	31,697	33,335
	568,503	**654,233**	48,177	51,616
Less: total future interest expenses		**(85,730)**		(3,439)
Present value of lease liabilities		**568,503**		48,177

3 Changes in accounting policies (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. For sublease arrangements that were previously classified as operating leases under HKAS 17 but classified as finance leases under HKFRS 16, the Group as an intermediate lessor is required to recognise the difference between the carrying amount of the right-of-use asset and the finance lease receivables in profit or loss when entering into the arrangements and interest income accrued on the outstanding balance of finance lease receivables over the lease term of the subleases, instead of the previous policy of recognising rental income on a straight-line basis over the lease term of the subleases. This results in a positive impact on the reported profit for the period in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. The capital element is classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The interest element is classified as operating cash outflows, similar to how other interest paid was treated. Although total cash flows are unaffected, the adoption of HKFRS16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in the interim financial report to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17. Any potential net tax effect is ignored.

3 Changes in accounting policies (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group (Continued)

	Amounts reported under HKFRS 16 (A) $'000	Add back: HKFRS 16 depreciation and interest expense (B) $'000	Deduct: HKFRS 16 lessor accounting for subleasing (C) $'000	Adjust: Estimated amounts as if under HKAS 17 (D) $'000	Hypothetical amounts for 2019 as if under HKAS 17 (E=A+B-C+D) $'000	Compared to amounts reported for 2018 under HKAS 17 $'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:						
Revenue	4,404,114	–	–	16,579	4,420,693	11,304,212
Cost of sales	(2,922,536)	11,370	–	(23,816)	(2,934,982)	(7,422,740)
Gross profit	1,481,578	11,370	–	(7,237)	1,485,711	3,881,472
Other income and gains	232,903	–	(97,590)	–	135,313	165,485
Recognition of change in fair value upon transfer to investment properties	26,552	–	3,778	–	30,330	–
Administrative expenses	(377,805)	3,900	–	(4,214)	(378,119)	(394,680)
Finance costs	(366,915)	12,216	–	–	(354,699)	(359,208)
Profit before taxation	1,049,619	27,486	(93,812)	(11,451)	971,842	1,861,733
Profit for the period	555,309	27,486	(93,812)	(11,451)	477,532	317,070
Reportable segment profit (adjusted profit before taxation) for the six months ended 30 June 2019 (note 3(b)) impacted by the adoption of HKFRS 16:						
– Property development	908,378	6,034	–	(2,505)	911,907	3,111,420
– Property investment	534,408	12,465	(93,812)	(1,980)	451,081	785,421
– Property management	16,272	7,469	–	(5,842)	17,899	(5,081)
– Manufacturing	12,819	72	–	(67)	12,824	6,016
– Others	81,482	1,446	–	(1,057)	81,871	37,153
– Total	1,553,359	27,486	(93,812)	(11,451)	1,475,582	3,934,929

Notes to the Unaudited Interim Financial Report
(Expressed in Hong Kong dollars unless otherwise indicated)

3 Changes in accounting policies (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) $'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) $'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) $'000	Compared to amounts reported for 2018 under HKAS 17 $'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	5,165,142	(68,082)	5,097,060	914,029
Interest paid	(629,142)	14,339	(614,803)	(635,490)
Net cash generated from/(used in) operating activities	2,103,164	(53,743)	2,049,421	(3,567,192)
Capital element of lease rentals paid	(53,743)	53,743	–	–
Net cash (used in)/generated from financing activities	(3,229,511)	53,743	(3,175,768)	1,773,473

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table the cash outflows in respect of capital element of lease rentals paid are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

4 Segment reporting

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

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

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

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

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

(e) the "others" segment comprises, principally, the hotel operations, manufacture and sale of aluminum alloy products and agricultural products, provision of construction services and other businesses.

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

Segment assets exclude deferred tax assets, restricted cash, cash and cash equivalents, other financial assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

4 Segment reporting (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below:

For the six months ended 30 June 2019	Property development $'000	Property investment $'000	Property management $'000	Manufacturing $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	2,372,145	504,391	935,532	146,359	445,687	4,404,114
Intersegment sales	–	5,404	50,133	–	8,178	63,715
	2,372,145	509,795	985,665	146,359	453,865	4,467,829
Reconciliation						
Elimination of intersegment sales						(63,715)
Revenue						4,404,114
Segment results before increase in fair value of investment properties	908,378	441,261	16,272	12,819	81,482	1,460,212
Increase in fair value of investment properties	–	66,595	–	–	–	66,595
Recognition of change in fair value upon transfer to investment properties	–	26,552	–	–	–	26,552
Segment results after increase in fair value of investment properties	908,378	534,408	16,272	12,819	81,482	1,553,359
Reconciliation						
Elimination of intersegment results						(56,527)
Other income and gains						232,903
Decrease in fair value of financial assets at fair value through profit or loss, net						(236,765)
Corporate and other unallocated expenses						(76,436)
Finance costs						(366,915)
Profit before taxation						1,049,619
As at 30 June 2019						
Segment assets:	58,522,325	33,617,394	441,845	130,771	3,469,493	96,181,828
Reconciliation						
Corporate and other unallocated assets						21,559,708
Total assets						117,741,536
Segment liabilities:	22,588,055	3,195,588	675,580	91,787	532,964	27,083,974
Reconciliation						
Corporate and other unallocated liabilities						45,779,542
Total liabilities						72,863,516

4 Segment reporting (Continued)

For the six months ended 30 June 2018 (Note)	Property development $'000	Property investment $'000	Property management $'000	Manufacturing $'000	Others $'000	Total $'000
Segment revenue:						
Sales to customers	9,292,507	439,300	910,219	160,706	501,480	11,304,212
Intersegment sales	–	3,863	13,295	–	21,266	38,424
	9,292,507	443,163	923,514	160,706	522,746	11,342,636
Reconciliation						
Elimination of intersegment sales						(38,424)
Revenue						11,304,212
Segment results before increase in fair value of investment properties	3,111,420	306,821	(5,081)	6,016	37,153	3,456,329
Increase in fair value of investment properties	–	478,600	–	–	–	478,600
Segment results after increase in fair value of investment properties	3,111,420	785,421	(5,081)	6,016	37,153	3,934,929
Reconciliation						
Elimination of intersegment results						94,614
Other income and gains						165,485
Decrease in fair value of financial assets at fair value through profit or loss, net						(1,887,873)
Corporate and other unallocated expenses						(86,214)
Finance costs						(359,208)
Profit before taxation						1,861,733
As at 31 December 2018						
Segment assets:	54,617,333	33,473,099	503,834	143,903	3,549,763	92,287,932
Reconciliation						
Corporate and other unallocated assets						25,732,217
Total assets						118,020,149
Segment liabilities:	21,183,749	3,018,511	880,176	78,470	319,282	25,480,188
Reconciliation						
Corporate and other unallocated liabilities						47,096,265
Total liabilities						72,576,453

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

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

5 Revenue, other income and gains

Revenue, represents sale of completed properties, commercial and industrial goods, rental income, property management fee income and others. All of the revenue of the Group is recognised at a point in time except for property management fee income, which is recognised over time.

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of completed properties	**2,372,145**	9,292,507
Property management fee income	**935,532**	910,219
Sales of commercial and industrial goods	**146,359**	160,706
Others	**445,687**	501,480
	3,899,723	10,864,912
Revenue from other sources		
Gross rental income from investment properties	**504,391**	439,300
	4,404,114	11,304,212
Other income and gains		
Interest income	**103,096**	138,875
Gain on disposal of subsidiaries	**–**	12,997
Others (note)	**129,807**	13,613
	232,903	165,485

Note: During the six months ended 30 June 2019, the Group entered into sublease arrangements with independent third parties whereby the Group is an intermediate lessor. These subleases are classified as finance leases and accounted for in accordance with the accounting policy set out in note 3(a)(iv) in which the Group derecognised the right-of-use assets relating to the head leases and recognised finance lease receivables relating to the subleases under "other financial assets" (see note 16). The Group also recognised an income of $91,510,000, being the difference between the right-of-use assets and the finance lease receivables, when entering into such arrangements.

6 Finance costs

	Six months ended 30 June	
	2019	2018
		(Note)
	$'000	$'000
Interest on:		
Bank loans	**484,621**	474,787
Other borrowings	**114,270**	129,813
Lease liabilities	**12,216**	–
Loans from the ultimate holding company	**61,343**	80,910
Loans from the immediate holding company	**19,791**	17,571
Loans from a fellow subsidiary	**56,289**	61,709
Loans from a joint venture	**17,798**	33,338
Loans from non-controlling shareholders	**4,036**	2,383
Total interest expense on financial liabilities not stated at fair value through profit or loss	**770,364**	800,511
Less: Interest capitalised into properties under development	**(403,449)**	(441,303)
	366,915	359,208

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

7 Profit before taxation

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

	Six months ended 30 June	
	2019	2018 (Note)
	$'000	$'000
Amortisation of prepaid land lease payments	**580**	525
Depreciation		
– owned property, plant and equipment	**90,971**	100,176
– right-of-use assets	**15,270**	–
Impairment loss/(reversal of impairment losses)		
– impairment recognised	**81,368**	141,887
– reversal of impairment loss	**(34,068)**	(318)

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

8 Income tax expense

The provision for Hong Kong Profits Tax for the six months ended 30 June 2019 is calculated at 16.5% (six months ended 30 June 2018: 16.5%) of the estimated assessable profits for the interim period, except for those qualifying corporations which the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. No provision for Hong Kong Profits Tax was made as the Group has no assessable profits arising in or derived from Hong Kong for the period (six months ended 30 June 2018: nil).

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

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

8 Income tax expense (Continued)

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

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Current tax:		
Mainland China CIT	**275,019**	1,225,807
Withholding tax on dividend	**–**	5,648
LAT in mainland China	**192,537**	1,351,956
Deferred tax:		
Mainland China CIT	**7,943**	(889,666)
Withholding tax on dividend	**42,871**	81,424
LAT in mainland China	**(24,060)**	(230,506)
Total tax charge for the period	**494,310**	1,544,663

9 Earnings per share

(a) Basis earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of $447,067,000 (six months ended 30 June 2018: $217,266,000) and the weighted average of 8,425,838,699 ordinary shares (six months ended 30 June 2018: 8,058,331,832 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $447,067,000 (six months ended 30 June 2018: $217,266,000) and the weighted average of 8,425,983,678 ordinary shares (six months ended 30 June 2018: 8,072,116,148 shares).

10 Dividends

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Dividends recognised as distribution during the period:		
Final dividend declared for 2018 – HK11.00 cents per share (2018: declared for 2017 – HK11.00 cents per share) (i)/(ii)		
Scrip shares	**675,777**	549,527
Cash	**252,630**	336,922
	928,407	886,449
Dividend declared in respect of current period:		
Proposed interim dividend for 2019 – HK7.00 cents per share (Interim dividend for 2018: HK7.00 cents per share) (i)/(iii)	**607,461**	576,223

Notes:

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

(ii) The Company declared a final dividend of HK11.00 cents per share in respect of year ended 31 December 2018 amounted to $928,407,000, of which $252,630,000 were paid in cash and the remaining balance of $675,777,000 were settled in the form of 237,949,329 scrip shares on 15 August 2019.

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

(iii) On 27 August 2019, the board of directors recommends an interim dividend of HK7.00 cents per share for the six months ended 30 June 2019 (interim dividend for 2018: HK7.00 cents per share) amounted to $607,461,000.

The amount of the interim dividend for 2019 was calculated on the basis of 8,678,009,314 shares in issue as at 27 August 2019.

11 Property, plant and equipment

(a) Right-of-use assets

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of warehouses, retail stores and offices building, and therefore recognised the additions to right-of-use assets of $571,625,000.

(b) Owned assets

During the six month ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of $122,127,000 (six months ended 30 June 2018: $137,377,000).

As at 30 June 2019, the Group has not yet obtained the ownership certificates in respect of the buildings with a net carrying value of $548,745,000 (31 December 2018: $551,567,000).

12 Investment properties

The Group's investment properties are situated in mainland China and are held under lease terms of 10 to 70 years. The directors of the Company have determined that the investment properties are categorised as commercial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued at 30 June 2019 based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified property valuers who have among their staff Fellow of the Hong Kong Institute of Surveyors with recent experience in location and category of property being valued, at approximately $29,649,287,000 (31 December 2018: $29,143,111,000) across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement ("HKFRS 13"). The levels are defined in note 23(a)(i).

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Investment properties (Continued)

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

The Group's property manager and the General Manager of Financial Management Department have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

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

	Valuation technique	Significant unobservable inputs	Range
Commercial properties	Income Capitalisation method	Vacancy rate	3% – 25% (31 December 2018: 2% – 25%)
		Capitalisation rate	2% – 7% (31 December 2018: 2% – 7%)
	Residual method	Profit margin	10% – 15% (31 December 2018: 10% – 15%)
		Capitalisation rate	3.5% (31 December 2018: 3.5%)

The fair value of the Group's investment properties in the mainland China is determined using income capitalisation method, except for certain investment properties under development which were valued using residual method.

Income capitalisation method determines fair values by discounting the projected cash flows associated with the properties using capitalisation rates. The valuation takes into account expected market rental growth and vacancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the vacancy rate, and negatively correlated to the capitalisation rates.

12 Investment properties (Continued)

Residual method is adopted to determine the fair values of certain investment properties under development. It assumes that the properties will be developed and completed in accordance with the latest development proposals in terms of property use, saleable area and construction schedule to establish the gross development value ("GDV"), the established GDV has been adjusted by the total estimated costs of the development including construction costs, professional fees and other associated expenditures, together with an allowance for interest expense, and developer's profit and risk margin. The capitalisation rates used have been adjusted for the quality and location of the building and the tenant credit quality.

Certificates of ownership in respect of certain investment properties of the Group with a net carrying amount of approximately $2,052,734,000 as at 30 June 2019 (31 December 2018: $1,713,727,000) have not yet been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates.

13 Properties under development

	At 30 June 2019 $'000	At 31 December 2018 $'000
Land in mainland China with lease term of:		
– 50 years or more	**9,395,826**	10,283,090
– between 10 and 50 years	**19,047,489**	19,125,796
Development expenditure, at cost	**9,676,958**	8,817,721
	38,120,273	38,226,607
Less: Write-down of properties under development	**–**	(129,098)
	38,120,273	38,097,509

As at 30 June 2019, the application for certificates of land use rights in mainland China for land held under medium term leases with a net carrying amount of $104,084,000 (31 December 2018: $3,041,902,000) was still in progress.

14 Interests in associates

	At 30 June 2019 HK$'000	At 31 December 2018 HK$'000
Unlisted	**203,780**	205,269
Listed in Hong Kong	**5,612,545**	5,561,887
Provision for impairment*	**(816,000)**	(816,000)
	5,000,325	4,951,156

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

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

Name	Business structure	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Group 30 June 2019	Percentage of ownership interest attributable to the Group 31 December 2018	Principal activities
Coastal Greenland*	Corporate	Bermuda/ mainland China	4,146,020,285 ordinary shares of $0.1 each	**15.22**	15.08	Property development and investment
Road King**	Corporate	Bermuda/ mainland China	749,336,566 ordinary shares of $0.1 each	**27.00**	27.00	Development, operation and management of toll roads and property development and investment

14 Interests in associates (Continued)

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

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

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

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

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

As at 30 June 2019, the fair value of interests in associates whose shares are listed in Hong Kong was $3,392,894,000 (31 December 2018: $2,981,096,000).

15 Interests in joint ventures

	At 30 June 2019 $'000	At 31 December 2018 $'000
Unlisted (note)	**6,106,962**	6,215,166

Note: The balance includes loans to joint ventures of $1,565,980,000. In accordance with the terms of the joint venture agreements, the loans are either unsecured, interest free and subordinated to the other financing obtained by the joint venture or require both parties to the joint venture to provide loan capital to the joint venture in proportion to their shareholdings and under equal terms. Accordingly, these loans form an integral part of the Group's equity investment in the joint venture and is recognised as such.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Interests in joint ventures (Continued)

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

Name	Nominal value of registered capital	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenzhen Langtong Property Development Company Limited ("Langtong")	RMB100,000,000	PRC/mainland China	50	50	50	Property development and property investment
Shenzhen Tianan Cyber Park (Group) Company Limited* ("Tianan")	US$62,000,000	PRC/mainland China	37.53*	50	37.53*	Property investment and development
Taizhou Shum Yip Investment Development Limited ("Taizhou Shum Yip")	RMB100,000,000	PRC/mainland China	51	50	51	Provision of land development service
Shum King Company Limited ("Shum King")	$2	Hong Kong	50	50	50	Property development and property investment
Guangzhou Pik Sum Real Estate Development Company Limited** ("Pik Sum")	RMB69,832,402	PRC/mainland China	14.28	14.28	14.28	Property development and property investment

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

** Although the Group's effective ownership interests in Pik Sum was only 14.28%, all the decisions about significant operating, financing and investing activities of Pik Sum require the unanimous consent of the parties sharing control and as such, Pik Sum is accounted for as a joint venture of the Group.

16 Other financial assets

	At 30 June 2019 $'000	At 31 December 2018 $'000
Current:		
Financial assets measured at fair value through profit or loss (FVPL)		
– Listed equity investments in Hong Kong	**3,624**	3,068
– Derivarive financial instrument (note)	**295,568**	–
Financial assets measured at amortised cost		
– Finance lease receivables	**33,628**	–
Less: Loss allowance	**(651)**	–
	332,169	3,068
Non-current:		
Financial assets measured at FVPL		
– Listed equity investments in mainland China	**35,204**	33,437
– Unlisted equity investments in mainland China (note)	**6,039,818**	6,261,172
– Derivative financial instrument (note)	**–**	335,542
	6,075,022	6,630,151
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)		
– Unlisted equity investments in mainland China	**3,817**	3,832
Financial assets measured at amortised cost		
– Other long term assets	**2,418,207**	2,549,654
– Finance lease receivables	**216,335**	–
Less: Loss allowance	**(103,184)**	(106,290)
	2,531,358	2,443,364
	8,610,197	9,077,347

16 Other financial assets (Continued)

Note: On 31 May 2017, 28 June 2017 and 6 November 2017, the Group entered into investment agreements ("Investment Agreements") with Guangzhou Kailong Real Estate Company Limited ("Kailong Real Estate"), Hengda Real Estate Group Company Limited ("Hengda Real Estate"), both of which are subsidiaries of China Evergrande Group, and Mr. Hui Ka Yan ("Mr. Hui", a director and controlling shareholder of China Evergrande Group). Pursuant to the Investment Agreements, the Group agreed to contribute RMB5,500,000,000 (equivalent to $6,337,100,000) to the capital of Hengda Real Estate for acquisition of approximately 2.0522% of the enlarged equity interest of Hengda Real Estate at the date of contribute, which was subsequently diluted to 1.7626% of the enlarged equity interest of Hengda Real Estate after the capital contributions from other investors in November 2017.

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

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

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

In addition, under the terms of the Investment Agreements, Kailong Real Estate and Hengda Real Estate have undertaken to the Group that the net profit of Hengda Real Estate for the three financial years of 2017, 2018 and 2019 ("Performing Undertaking Period") shall not be less than RMB24.3 billion, RMB50 billion and RMB55 billion, respectively. If the net profit of Hengda Real Estate for any financial year in the Performance Undertaking Period is less than the amount for that financial year, the proportional dividend to be paid by Hengda Real Estate to the Group will be adjusted upward in accordance with the formulae specified in the Investment Agreements. The Group's equity investment and derivative financial instruments arising from Henda Real Estate and its controlling parties are collectively known as Hengda Investments.

The Group has undertaken to Hengda Real Estate and its holding company, Kailong Real Estate, that it will not transfer its interests in Hengda Real Estate or create any encumbrances over such interests without the consent of Kailong Real Estate for a period of three years from completion of the capital contribution.

During the period ended 30 June 2019, there was a decrease in fair value in respect of Hengda Investments of $239,251,000, which was recognised in the consolidated statement of profit or loss.

17 Trade receivables

	At 30 June 2019 $'000	At 31 December 2018 $'000
Trade receivables	**721,648**	697,064
Less: loss allowance	**(123,683)**	(118,596)
	597,965	578,468

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

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

	At 30 June 2019 $'000	At 31 December 2018 $'000
Within one year	**485,976**	430,387
One to two years	**57,694**	140,548
Two to three years	**54,295**	7,533
	597,965	578,468

18 Cash and cash equivalents and restricted cash

	At 30 June 2019 $'000	At 31 December 2018 $'000
Cash and bank balances	**11,138,353**	11,547,664
Non-pledged time deposits with original maturity of less than three months when acquired	**563,269**	1,107,527
	11,701,622	12,655,191
Less: Restricted cash	**(2,155,283)**	(2,822,965)
Cash and cash equivalents	**9,546,339**	9,832,226

19 Pledge of assets

Bank loans amounting to $517,624,000 (31 December 2018: $373,343,000) were secured by certain of the Group's assets as below:

(i) properties under development with a carrying amount value of approximately $1,106,938,000 (31 December 2018:$1,111,319,000) was used to secure banking facilities amounting to $1,591,520,000, of which $255,126,000 had been drawn down at 30 June 2019 (note 13);

(ii) land and buildings and investment properties in mainland China with net carrying amounts of approximately $632,833,000 and $488,282,000 (31 December 2018: $646,862,000 and $497,515,000) were used to secure banking facilities amounting to $284,200,000, of which $262,498,000 had been drawn down at 30 June 2019 (notes 11 and 12).

20 Trade payables

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

	At 30 June 2019 $'000	At 31 December 2018 $'000
Within one year	**630,803**	1,206,283
One to two years	**767,273**	327,110
Two to three years	**145,398**	188,902
Over three years	**222,646**	234,373
	1,766,120	1,956,668

21 Share option scheme

The Company operated a share option scheme (the "Scheme") which was approved and adopted on 22 June 2012 for the purpose of providing incentives and rewards to directors and employees of the Group who contribute to the success of the Group's operations. The Scheme became effective on 22 June 2012 and, unless otherwise cancelled or amended, shall be valid and effective for a period of 10 years from that date, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Share option scheme (Continued)

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

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

	Number of instruments	Exercise price	Vesting date	Expiry date	Contractual life of options
At 30 June 2019					
Options granted to directors and employees:					
– on 20 June 2017	60,360,716	3.226	20/06/2019	19/06/2022	5.00
– on 20 June 2017	45,270,514	3.226	20/06/2020	19/06/2022	5.00
– on 20 June 2017	45,270,728	3.226	20/06/2021	19/06/2022	5.00
Options granted to directors and employees					
– on 8 February 2018	9,537,592	3.188	20/06/2019	19/06/2022	4.36
– on 8 February 2018	7,153,190	3.188	20/06/2020	19/06/2022	4.36
– on 8 February 2018	7,153,203	3.188	20/06/2021	19/06/2022	4.36
Total share options outstanding	174,745,943				

At the end of the reporting period, the Company had 174,745,943 share options outstanding under the Scheme, representing approximately 2.07% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 174,745,943 additional ordinary shares of the Company and an increase in share capital of $647,707,000 (before issue expenses).

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Share option scheme (Continued)

(b) Share options movement during the period

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

	At 30 June 2019		At 31 December 2018	
	Weighted average exercise price $ per share	**Number of options**	Weighted average exercise price $ per share	Number of options
At 1 January	**3.041**	**219,017,280**	3.161	196,385,731
Granted during the period/year	**–**	**–**	3.394	22,384,000
Exercised during the period/year (i)	**2.191**	**(26,348,178)**	2.196	(13,989,023)
Lapsed during the period/year	**2.542**	**(17,923,159)**	–	–
Adjusted during the period/year (ii)	**–**	**–**	–	14,236,572
At 30 June/31 December	**3.220**	**174,745,943**	3.041	219,017,280
Exercisable at the end of the period	**3.221**	**69,898,308**	2.333	44,271,337

The options outstanding at 30 June 2019 had an exercise price of $3.188 – $3.226 (2018: $2.191 – $3.188) and a weighted average remaining contractual life of 2.82 years (31 December 2018: 2.78 years).

(i) The subscription rights attaching to 26,348,178 share options were exercised at the weighted average exercise price of $2.191 per share, resulting in the issue of 26,348,178 shares for a total cash consideration, before expenses, of $57,729,000. The corresponding amount included in share option reserve of $10,096,000 was also transferred to share capital upon the exercise of the share options, resulting in a total increase in share capital of $67,825,000.

The weighted average share price at the date of exercise for share options exercised during the period was $2.566 per share.

21 Share option scheme (Continued)

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

(ii) The number of unexercised share options and the exercise price may be subject to adjustment in case of alteration in the capital structure of the Company. Pursuant to the announcements dated 17 August 2018 and 19 November 2018, the Company adjusted the exercise price and number of options outstanding with reference to the terms of the Scheme and the supplementary guidance attached to the letter of the Stock Exchange relating to share option schemes dated 5 September 2005. The adjusted number and exercise prices for each batch of share options are presented in note 21(a) above.

(iii) The Group recognised a share option expense of $15,054,000 during the six months ended 30 June 2019 (six months ended 30 June 2018: $20,810,000).

22 Capital and reserves

(a) Capital

	At 30 June 2019 $'000	At 31 December 2018 $'000
Issued and fully paid: 8,440,059,985 (31 December 2018: 8,413,711,807) ordinary shares	**20,756,084**	20,688,259

(b) Reserves

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

22 Capital and reserves (Continued)

(c) Capital management

The objectives of the Group's capital management policy are to ensure the financing capabilities of the Company in running its operation on a going concern basis, to maintain an optimal capital structure, to reduce capital cost and to maximise shareholders value.

The Group manages and adjusts its capital structure appropriately according to the specific features of the risks of its assets and the changes in various economic conditions. Through adjustments in dividend distribution, injections and repayments of capital by shareholders or issuance of new shares, the Group is able to maintain an optimal capital structure of the Company.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to equity shareholders of the Company. The Group's policy is to keep the gearing ratio at a reasonable level. Net debt is interest-bearing bank and other borrowings less cash and cash equivalents and restricted cash. The directors have considered the impact of the application of HKFRS 16 on the gearing ratio and are of the view that the impact is not significant.

23 Fair value and fair value hierarchy of financial instruments

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

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

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

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

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

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

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

(i) Fair value hierarchy (Continued)

The Group's financial assets measured at fair value are set out below:

	Fair value measurement as at 30 June 2019 using			
	Unadjusted quoted prices in active markets (Level 1) $'000	Observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Listed equity investments in Hong Kong	3,624	–	–	3,624
Listed equity investments in mainland China	35,204	–	–	35,204
Unlisted equity investments in mainland China	–	–	6,043,635	6,043,635
Derivative financial instrument	–	–	295,568	295,568
	38,828	–	6,339,203	6,378,031

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

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

(i) Fair value hierarchy (Continued)

	Fair value measurement as at 31 December 2018 using			
	Unadjusted quoted prices in active markets (Level 1) $'000	Observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Listed equity investments in Hong Kong	3,068	–	–	3,068
Listed equity investments in mainland China	33,437	–	–	33,437
Unlisted equity investments in mainland China	–	–	6,265,004	6,265,004
Derivative financial instrument	–	–	335,542	335,542
	36,505	–	6,600,546	6,637,051

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

(i) The fair values of listed equity investments catagorised under "financial assets measured at FVPL" is measured using level 1 fair value hierarchy and is determined based on quoted market prices.

(ii) The fair values of unlisted equity investment and derivative financial instrument catagorised under "Other financial assets" are measured using level 3 fair value hierarchy and valued by Guideline Public Company Method and Binomial Lattice Pricing Method.

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

(i) Fair value hierarchy (Continued)

Information about level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Unlisted equity investment in mainland China	Guideline Public Company Method	Discount for lack of marketability	24% (31 December 2018: 24%)
Derivative financial instrument	Binomial Lattice Pricing Method	Expected failure rate of the Proposed Reorganisation	10% (31 December 2018: 10%)

The fair value of the unlisted equity instruments is determined using Guideline Public Company Method, which uses the price/book ratios of comparable listed companies as benchmark and adjusted for lack of marketability discount. The fair value measurement is positively correlated to the price/book ratios and negatively correlated to the discount for lack of marketability. As at 30 June 2019, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 1% would have increased/decreased the Group's profit after tax and retained profits by $13,870,000 (31 December 2018: $15,100,000).

The fair value of the derivative financial instrument is determined based on the estimated amount that the Group would receive if the Proposed Reorganisation is not completed by 31 January 2020, taking into account the expected failure rate of the Proposed Reorganisation. The fair value measurement is positively correlated to the expected failure rate of the Proposed Reorganisation. As at 30 June 2019, it is estimated that with all other variables held constant, an increase/decrease in expected failure rate of the Proposed Reorganisation by 1% would have increased/decreased the Group's profit after tax and retained profits by $22,168,000 (31 December 2018: $25,166,000).

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2019 and 31 December 2018.

24 Commitments

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 $'000	At 31 December 2018 $'000
Commitments in respect of the acquisition of land and buildings, and development costs attributable to properties under development:		
Contracted, but not provided for	**6,985,370**	7,343,032

In addition to this, as disclosed in the Company's announcement dated 14 July 2017, the Group agreed a maximum capital contribution to a related party, Shum King, of $3,000,000,000 for its development of a piece of land in Hong Kong. As at 30 June 2019, the Group had an outstanding capital commitment to Shum King of $1,977,500,000 (31 December 2018: $2,007,500,000).

24 Commitments (Continued)

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties and others $'000
Within 1 year	20,104
In the second to fifth years, inclusive	33,345
	53,449

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3.

25 Contingent liabilities

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

As at 30 June 2019, the Group has given guarantees to a maximum extent of approximately $3,925,218,000 (31 December 2018: $5,866,018,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties.

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

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

(b) Financial guarantees to a related party of the Group

As at 30 June 2019, the Group has given guarantees amounted to RMB1,483,362,000 in respect of bank loans and other borrowings to Pik Sum and Taizhou Shum Yip, both of which are joint ventures of the Group (see note 15).

26 Related party transactions

(a) Transactions with related parties

In addition to the related party transactions disclosed in note 24(a) and 25(b), the Group had the following related party transactions:

		Six months ended 30 June	
		2019	2018
		$'000	$'000
(1) Shum Yip Group, the ultimate holding company:			
– Management fee income	(i)	**992**	1,068
– Rental income	(i)	**6,036**	6,388
– Interest expense	(ii)	**61,343**	80,910
(2) Shum Yip Holdings, the immediate holding company:			
– Rental expenses	(i)	**5,632**	5,777
– Management fee expense	(i)	**612**	1,620
– Interest expense	(ii)	**19,791**	17,571
(3) Joint ventures:			
– Sales of products	(i)	**9,598**	53,111
– Interest income	(ii)	**33,061**	37,622
– Interest expense	(ii)	**17,798**	33,338
(4) Associates:			
– Interest income	(ii)	**137**	13,802
– Rental expenses	(i)	**7,871**	–
(5) Fellow subsidiaries:			
– Rental expenses	(i)	**287**	253
– Interest expense	(ii)	**56,289**	61,709

Notes:

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

(ii) These interest expenses and interest income arose from the related party transactions as disclosed in note 26(c).

26 Related party transactions (Continued)

(b) Other transaction with related parties

A subsidiary in mainland China had entered into a fund arrangement with a financial institution (the "Trustee"), pursuant to which the Trustee had raised trust fund amounting to RMB2,500,000,000 (equivalent to $2,842,000,000) (31 December 2018: RMB2,500,000,000 (equivalent to $2,853,250,000)) and provided the fund to the subsidiary for financing a property development project of the subsidiary. The fund bears a fixed interest rate at 6.80% per annum. The fund will expire in May 2021 and is guaranteed by Shum Yip Group.

(c) Outstanding balances with related parties

	Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
	At 30 June 2019 $'000	At 31 December 2018 $'000	**At 30 June 2019 $'000**	At 31 December 2018 $'000
Due to the immediate holding company	**–**	–	**(1,252,531)**	(1,233,548)
Due to the ultimate holding company	**–**	–	**(2,767,161)**	(4,734,953)
Loans from fellow subsidiaries	**–**	–	**(2,867,592)**	(3,132,996)
Loans from associates	**–**	–	**(46,709)**	(46,950)
Loans from joint ventures	**–**	–	**(354,577)**	(1,167,231)
Loans to joint ventures	**2,913,270**	3,960,779	**–**	–
Loans to an associate	**15,437**	15,811	**–**	–
	2,928,707	3,976,590	**(7,288,570)**	(10,315,678)

The above balances arose from financing arrangements with related parties.

The amounts due to related parties presented above include balances amounting to $6,471,794,000 (31 December 2018: $8,954,388,000) which are interest-bearing, unsecured and have fixed terms of repayment within a year. The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

26 Related party transactions (Continued)

(c) Outstanding balances with related parties (Continued)

The amounts due from related parties presented above include balances amounting to $2,928,707,000 (31 December 2018: $3,677,164,000) which are interest-bearing, unsecured and have fixed terms of repayment ranging from one to five year. The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Short term employee benefits	**7,969**	7,932
Post-employment benefits	**1,546**	1,396
Share-based payments	**3,765**	3,821
Total compensation paid to key management personnel	**13,280**	13,149

27 Non-adjusting events after the reporting period

Subsequent to the end of the interim period, the board of the directors proposed an interim dividend. Further details are disclosed in note 10(iii).

28 Comparative figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2019, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO), or which were recorded in the register required to be kept under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:–

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

Name of director	Capacity	Number of Shares	Underlying shares pursuant to share options	Aggregate interests	Percentage of Shares in issue *(Note)*
LU Hua	Beneficial owner	1,154,562	8,369,457	9,524,019	0.11
HUANG Wei	Beneficial owner	–-	7,950,550	7,950,550	0.09
MOU Yong	Beneficial owner	–-	5,608,578	5,608,578	0.07
LIU Chong	Beneficial owner	–-	5,608,578	5,608,578	0.07
WU Jiesi	Beneficial owner	3,400,000	–-	3,400,000	0.04
LI Wai Keung	Beneficial owner	1,180,880	–-	1,180,880	0.01

Note: The percentage was calculated based on 8,440,059,985 Shares in issue as at 30 June 2019.

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

Save as disclosed above, none of the directors and chief executive of the Company had, as at 30 June 2019, any interests or short positions in any Shares and underlying shares or debentures of the Company or any of its associated corporations (which is the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Interests of Substantial Shareholders

So far as is known to any director or chief executive of the Company, as at 30 June 2019, the interests and short positions of the shareholders (other than directors or chief executives of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Interest in Shares:

Name	Capacity	Number of Shares Long Position	Number of Shares Short Position	Percentage of Shares in issue *(Note 1)*
Shum Yip Group Limited* ("SYG")	Interest in controlled corporation	5,292,950,725 *(Note 2)*	–	62.71
Shum Yip Holdings Company Limited ("SYH")	Beneficial owner	5,220,765,402	–	61.86
	Interest in controlled corporation	72,185,323 *(Note 3)*	–	0.85
ALPHA-OMEGA CORPORATION	Beneficial owner	576,713,127	–	6.83

Notes:

1. The percentage was calculated based on 8,440,059,985 Shares in issue as at 30 June 2019.

2. SYG is deemed to be interested in the 5,292,950,725 Shares which SYH is interested in by virtue of SYH being its direct wholly-owned subsidiary.

3. These 72,185,323 Shares were held by Goldclass Industrial Limited, a wholly-owned subsidiary of Successful Years Holdings Limited, which in turn is wholly-owned by Shum Yip Finance Company Limited ("SYF"). SYF is a wholly-owned subsidiary of SYH and accordingly, SYH is deemed to be interested in these 72,185,323 Shares.

* The English translation is for identification purpose only

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any person (other than directors and chief executives of the Company) who had interests or short positions in the Shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The Company adopted a share option scheme on 22 June 2012 ("Share Option Scheme"). During the six months ended 30 June 2019, 17,923,159 options were lapsed and, 26,348,178 options were exercised under the Share Option Scheme. As at 30 June 2019, 174,745,943 options granted under the Share Option Scheme were still outstanding.

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

	Number of share options									
	At 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2019	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Directors										
LU Hua	3,351,849	–	3,350,000	1,849	–	–	–	28/1/2014	28/1/2016-27/1/2019*	2.191
	8,369,457	–	–	–	–	–	8,369,457	20/6/2017	20/6/2019-19/6/2022***	3.226
HUANG Wei	2,639,768	–	–	2,639,768	–	–	–	27/7/2015	28/1/2016-27/1/2019*	2.826
	7,950,550	–	–	–	–	–	7,950,550	20/6/2017	20/6/2019-19/6/2022***	3.226
MOU Yong	2,050,714	–	2,050,000	714	–	–	–	28/1/2014	28/1/2016-27/1/2019*	2.191
	5,608,578	–	–	–	–	–	5,608,578	20/6/2017	20/6/2019-19/6/2022***	3.226
LIU Chong	1,883,196	–	1,883,196	–	–	–	–	28/1/2014	28/1/2016-27/1/2019*	2.191
	5,608,578	–	–	–	–	–	5,608,578	20/6/2017	20/6/2019-19/6/2022***	3.226
	37,462,690	–	7,283,196	2,642,331	–	–	27,537,163			

	Number of share options									
	At 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Other changes during the period	At 30 June 2019	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$ per share*
Other employees										
In aggregate	25,916,326	–	19,064,982	6,851,344	–	–	–	28/1/2014	28/1/2016-27/1/2019*	2.191
	2,668,647	–	–	2,668,647	–	–	–	27/7/2015	28/1/2016-27/1/2019*	2.826
	5,760,837	–	–	5,760,837	–	–	–	14/6/2016	14/6/2016-27/1/2019**	2.698
	123,364,795	–	–	–	–	–	123,364,795	20/6/2017	20/6/2019-19/6/2022***	3.226
	23,843,985	–	–	–	–	–	23,843,985	8/2/2018	20/6/2019-19/6/2022***	3.188
	181,554,590	–	19,064,982	15,280,828	–	–	147,208,780			
	219,017,280	–	26,348,178	17,923,159	–	–	174,745,943			

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

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

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

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

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

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

Interim Dividend

The Board has resolved to pay an interim dividend of HK7.00 cents per Share for the six months ended 30 June 2019 (interim dividend for 2018: HK7.00 cents) payable on or about Monday, 18 November 2019 to shareholders whose names appear on the register of members of the Company on Thursday, 12 September 2019. The interim dividend will be paid in cash but shareholders will be given an option to receive new fully paid shares of the Company ("scrip shares") in lieu of cash, or partly in cash and partly in the form of scrip shares (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the scrip shares to be issued under the Scrip Dividend Scheme. A circular containing the details of the Scrip Dividend Scheme together with relevant election form will be sent to shareholders on or about Wednesday, 16 October 2019.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 11 September 2019, to Thursday, 12 September 2019 (both dates inclusive), during which period no transfers of Shares will be registered. To qualify for the interim dividend, all duly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 10 September 2019.

Corporate Governance

The Company has applied the principles and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2019.

Audit Committee

The Audit Committee comprises three independent non-executive directors namely Mr. LI Wai Keung, Mr. WU Wai Chung, Michael and Dr. WONG Yau Kar, David. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2019 and this report.

Compliance with Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the period from 1 January 2019 to 30 June 2019.

Update On Directors' Information

Mr. LI Wai Keung ceased to be an executive director of GDH Limited from 27 June 2019.

Purchase, Sale or Redemption of The Company's Securities

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

Continuing Disclosure Requirements Under Rule 13.21 of the Listing Rules

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

By an agreement ("1st Facility Agreement") dated 29 May 2015 entered into between the Company as borrower and a bank, up to a principal amount of HK$200 million term loan facility ("1st Facility") was provided to the Company. The 1st Facility shall be fully repaid by the Company in three instalments with the last repayment date falling 60 months from the date of the 1st Facility Agreement.

By an agreement ("2nd Facility Agreement") dated 9 August 2017 entered into between the Company as borrower and a bank, up to a principal amount of HK$500 million transferable term loan facility ("2nd Facility") was provided to the Company. The term of the 2nd Facility is 48 months commencing from the date of the 2nd Facility Agreement.

On 16 August 2017, the Company as borrower accepted the facility letter ("3rd Facility Agreement") relating to a transferable term loan facility up to a principal amount of HK$600 million (or its equivalent in United States dollars) ("3rd Facility") offered by a bank as lender. The Company shall repay in full to the lender each borrowing of a portion of the 3rd Facility on the date falling 48 months from the date such borrowing is made and all other sums (if any) then owing under the 3rd Facility Agreement on the date falling 54 months from 21 August 2017.

On 18 August 2017, the Company as borrower accepted the facility letter ("4th Facility Agreement") relating to a term loan facility of up to US$65,000,000 (or its equivalent in Hong Kong dollars) ("4th Facility") offered by a bank as lender. The 4th Facility shall be fully repaid by the Company in three installments with the last repayment date falling 36 months from the acceptance date of the 4th Facility Agreement.

On 18 December 2017, the Company as borrower entered into a facility agreement ("5th Facility Agreement") relating to a transferable term loan facility of up to HK$400,000,000 ("5th Facility") with a bank as lender. The term of the 5th Facility is 48 months commencing from the date of the 5th Facility Agreement.

On 26 February 2018, the Company as borrower accepted the facility letter ("6th Facility Agreement") relating to a term loan facility of up to HK$500,000,000 ("6th Facility") offered by a bank as lender. The last repayment date of the 6th Facility is the day falling 3 years from the acceptance date of the 6th Facility Agreement.

On 11 April 2018, the Company as borrower accepted the facility letter ("7th Facility Agreement") relating to a term loan facility of up to HK$1,500,000,000 ("7th Facility") offered by a bank as lender. The term of the 7th Facility is 4 years from the date the first drawdown under the 7th Facility is made.

On 26 June 2018, the Company as borrower entered into a facility agreement ("8th Facility Agreement") relating to a transferrable term loan facility of up to a principal amount of HK$10,000,000,000 ("8th Facility") offered by certain banks as lenders. The Company shall repay the borrowings under the 8th Facility by five installments with all outstanding amounts under the 8th Facility fully repaid on the date falling 60 months from the date of the 8th Facility Agreement.

On 14 September 2018, the Company as borrower accepted the facility letter ("9th Facility Agreement") relating to an uncommitted term loan facility of up to US$185,000,000 (or its equivalent in Hong Kong dollars) ("9th Facility") offered by a bank as lender. The last repayment date of the 9th Facility is the day falling 4 years from the acceptance date of the 9th Facility Agreement.

On 26 June 2019, the Company as borrower accepted the facility letter ("10th Facility Agreement", together with the 1st Facility Agreement, 2nd Facility Agreement, 3rd Facility Agreement, 4th Facility Agreement, 5th Facility Agreement, 6th Facility Agreement, 7th Facility Agreement, 8th Facility Agreement, and 9th Facility Agreement collectively referred to as the "Facility Agreements") relating to a revolving loan facility of up to RMB1,000,000,000 ("10th Facility") offered by a bank as lender. The Facility is subject to annual review by the lender.

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

深圳控股有限公司
SHENZHEN INVESTMENT LIMITED

www.shenzheninvestment.com

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C021898