

ZHUGUANG HOLDINGS GROUP COMPANY LIMITED

珠光控股集團有限公司\*

(incorporated in Bermuda with limited liability)

Stock Code : 1176



**珠光控股**

ZHUGUANG HOLDINGS

*Interim Report 2011*



\*For identification purposes only

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(Financial figures in this interim report are expressed in HK\$ unless otherwise stated)

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## CORPORATE INFORMATION

### Executive Directors

Mr. Liao Tengjia (*Chairman*)

Mr. Chu Hing Tsung

(alias Mr. Zhu Qing Yi)

(*Deputy Chairman and*

*Chief Executive Officer*)

Mr. Chu Muk Chi (alias Mr. Zhu La Yi)

Mr. Huang Jia Jue

### Independent Non-Executive Directors

Mr. Leung Wo Ping *JP*

Dr. Zhang Jianqi

Dr. Zhou Chunsheng

### Audit Committee

Mr. Leung Wo Ping *JP*

(*Committee Chairman*)

Dr. Zhang Jianqi

Dr. Zhou Chunsheng

### Remuneration Committee

Dr. Zhang Jianqi (*Committee Chairman*)

Dr. Zhou Chunsheng

Mr. Huang Jia Jue

### Nomination Committee

Dr. Zhou Chunsheng

(*Committee Chairman*)

Mr. Leung Wo Ping *JP*

Mr. Huang Jia Jue

### Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### Principal Place of Business

Room 5709, 57th Floor, The Center

99 Queen's Road Central

Hong Kong

### Company Secretary

Mr. Yu Tat Chi Michael

### Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

### Hong Kong Branch Share Registrar and Transfer Office

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

### **Auditor**

RSM Nelson Wheeler  
29th Floor, Caroline Centre,  
Lee Gardens Two  
28 Yun Ping Road  
Hong Kong

### **Legal Advisors**

D.S. Cheung & Co.  
29th Floor, Bank of East Asia Harbour  
View Centre  
56 Gloucester Road, Wanchai  
Hong Kong

### **Legal Advisors on Bermuda Law**

Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place, Central  
Hong Kong

### **Principal Bankers**

The Hongkong and Shanghai Banking  
Corporation Limited  
Standard Chartered Bank  
(Hong Kong) Limited  
Bank of China Limited

### **Website**

[www.zhuguang.com.hk](http://www.zhuguang.com.hk)

### **Stock Code**

1176

The board of Directors (“Board”) of Zhuguang Holdings Group Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 together with the comparative figures as follows:

## FINANCIAL HIGHLIGHTS

RESULTS	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
Turnover — rental income	19,059	3,890
Gross profit	19,059	2,059
Fair value gains on investment properties	12,163	11,925
Profit for the period	10,139	7,249
Basic earnings per share	0.41 cents	0.32 cents

  

	At	
	30 June 2011 \$'000 (Unaudited)	31 December 2010 \$'000 (Audited)
Total assets	1,816,310	1,352,888
Total liabilities	719,348	392,620
Total equity	1,096,962	960,268

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group is principally engaged in property development, property investment and property rental activities in the People's Republic of China ("PRC").

### Property Investment

During the period under review, the Group's major investment properties is the holding of certain floors in Royal Mediterranean Hotel, which is located at Tianhe Road, Tianhe District, Guangzhou, the PRC. The Royal Mediterranean Hotel is a 5-star high-end business hotel which is located in Guangzhou's most prosperous Tianhe business district. As announced on 31 March 2011, the Group had completed the acquisition of 100% shareholding interest in Gains Wide Holdings Limited ("Gains Wide") which was holding certain floors in Royal Mediterranean Hotel with a total gross floor area of approximately 5,964 square meters. After completion of the acquisition of Gains Wide, together with Group's holding of certain floors, the Group total holding of the investment property in Royal Mediterranean Hotel amounted to gross floor area of approximately 34,592 square meters. From April 2011, such investment property was leased to and managed by an independent hotel management company and has generated to the Group a recurring rental income of approximately HK\$6,700,000 per month.

### Property Development

During the period under review, the Group's core property development project is Pearl Nansha Scenic ("Nansha Scenic"), which is located at Jinzhou Main Street, Nansha District, Guangzhou City, Guangdong Province, the PRC, with a land area of approximately 28,319 square meters. According to the construction design, the project comprises ten 18-storey towers including residential units, a single-storey commercial podium, a car park at basement level and other public facilities with a total gross floor area of approximately 103,266 square meters. The construction of the fundamental structure of Phase I of Nansha Scenic had been completed and was nearly sold out. The project is now in Phase II development. It is estimated that the pre-sale of Phase II of Nansha Scenic will commence in the fourth quarter of 2011 and the whole development will be completed by the third quarter of 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Review *(continued)*

#### Property Development *(continued)*

Apart from residential property project, the Group also plans to enter the commercial property market. As announced on 21 April and 30 June 2011, the Group entered into a share transfer agreement with an independent vendor, pursuant to which the Group has conditionally agreed to acquire the entire issued share capital of Cheng Chang Holdings Limited (“Cheng Chang”) at an aggregate consideration of RMB492 million. Cheng Chang is a property holding company which owns the entire issued share capital of Fully Wise Investment Limited (“Fully Wise”). Fully Wise is interested as to 80% of Guangdong Hailian Building Co., Ltd.\* (“Guangdong Hailian”), which in turn owns the entire interest in a development project on a parcel of land at Lot A2-1, Zhujiang New Town, Tianhe District, Guangzhou, the PRC, with land area of approximately 10,449 square meters. As at the interim results reporting date, the acquisition has not been completed.

#### Business Outlook

Owing to the comprehensive planning and excellent project management capability, the Group’s residential development project, “Nansha Scenic”, is making good progress, largely on track, according to plan and close to completion. This successful experience has laid down a better foundation for the Group’s future projects. Moreover, the Group’s investment property in Royal Mediterranean Hotel has already contributed a stable rental income to support the Group’s long-term business development. The Group will continue to acquire quality investment properties as a future long-term recurring income stream should suitable opportunities arise.

\* English name is translated for identification purposes only

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Outlook *(continued)*

In response to the strong demand for quality office spaces in Guangzhou, the Group is planning to expand into the commercial property market through the proposed acquisition of Cheng Chang with the aim of developing a development project on a parcel of land at Lot A2-1, Zhujiang New Town, Tainhe Destruct, Guangzhou, the PRC, with land area of approximately 10,449 square meters, with a planned gross floor area of approximately 104,487 square meters. According to the preliminary construction design, the project will be developed into a commercial project which comprises primarily two first grade 36-storey office buildings on top of a 5-storey shopping mall and a car park at basement level. As the 3-storey basement has already been constructed, the superstructure of the development can be built instantaneously. It is estimated that one to two years construction time can be saved.

Diversifying into the commercial property market is one of the important long-term development strategies of the Group. By entering into this market not only enable the Group to avoid the impact of the PRC government's macro-control measures on the residential property market, but also can broaden and stabilize the Group's income sources. The Group expects the acquisition of Cheng Chang should be completed shortly. However the effective completion date of the acquisition is to be fixed subject to the fulfillment of certain conditions. The Board expects if the proposed acquisition is completed and upon the completion of the project, it will contribute significantly to the future earnings of the Group to help promoting the Group's sustainable growth and provide funding for future project development.

Apart from continuing its strategy in focusing on the development of quality projects in prime locations in Guangzhou, the Group also plans to seek quality projects in Guangzhou's surrounding areas. The Group will closely keep an eye on the areas with enormous appreciation potential. The Group will acquire high-quality and low-cost land reserve through various sourcing methods such as mergers and acquisitions, public auction, joint development cooperation, should their prices are within the expectation of the Group's budget and affordability.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Business Outlook *(continued)*

Confronted with such volatile economic environment outside, the PRC still maintained its satisfactory momentum in economic growth. Under more and stricter tightening measures in the period, the mainland property market remained stable. The rise in property prices has slowed down and speculation and investment in property were curbed. This is beneficial to the healthy growth of the mainland property sector. To ensure sustainable rapid growth, the Group continued to expand sources in getting high quality land reserve through various means and ways. The Group is optimistic about the medium and long term development of the mainland property market but it will not be over-optimistic. The Group, however, will strictly adhere to the principle of prudence in developing new projects and acquiring new land.

### Financial Review

#### Turnover and Gross Profit

The Group's turnover represents rental income generated. During the period under review, the turnover was approximately HK\$19,100,000 (six months ended 30 June 2010: approximately HK\$3,900,000), and the gross profit was approximately HK\$19,100,000 (six months ended 30 June 2010: approximately HK\$2,100,000).

#### Fair Value Gains on Investment Properties

The fair value model was adopted consistently when accounting for investment properties, whereby such properties were recorded at their fair values as determined by an independent professional valuer.

#### Liquidity and Capital Resources

Net current assets decreased to approximately HK\$93,201,000 as at 30 June 2011 (31 December 2010: approximately HK\$241,481,000). As at 30 June 2011, the Group's bank and cash balances amounted to approximately HK\$8,721,000 (31 December 2010: approximately HK\$17,733,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Financial Review** *(continued)*

#### **Borrowings, Charges on Group's Assets and Gearing Ratio**

As at 30 June 2011, the Group's bank loans amounted to approximately HK\$128,296,000 which were secured by the corporate guarantees of the Company, and the pledge of certain rental income and certain investment properties of the Group. The bank loans amounted to HK\$26,544,000 were repayable within one year and the other part were repayable between two and five years. The gearing ratio as at 30 June 2011, expressed as total borrowing over the total equity was 12% (31 December 2010: 9%).

#### **Contingent Liabilities**

The Group provided guarantees in respect of mortgage facilities granted by three banks in connection with the mortgage loans entered into by certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there are any defaults on the mortgages, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulting purchasers to banks. The Group is then entitled to take over the legal title and possession of the related properties. The guarantees shall be released upon the purchasers' property ownership certificates were issued and in the custody of the banks.

At the reporting date, the directors consider that the likelihood of default in payments by purchasers is minimal and do not consider it probable that a claim will be made against the Group under the above guarantees.

The fair value of the guarantees at date of inception is not material and is not recognised in the financial statements.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Contingent Liabilities** *(continued)*

In addition, the Group pledged certain investment properties to a bank in respect of a term loan granted to a tenant. As at 30 June 2011, the outstanding bank loan together with interest amounted to approximately HK\$29,821,000. The loan was subsequently repaid and the pledge relating to the investment properties was discharged.

Save as disclosed above, the Group did not have any other significant contingent liabilities as at 30 June 2011.

### **Foreign Exchange Rate**

The Group conducts its business almost exclusively in Renminbi (“RMB”) except that certain receipts of sales proceeds are in Hong Kong dollar (“HK\$”). The conversion of RMB into HK\$ or other foreign currencies has been based on the rates set by the People’s Bank of China. The value of RMB against HK\$ and other foreign currencies may fluctuate and is affected by factors such as changes in the PRC’s political and economic conditions. The Group has not adopted any financial instruments for hedging purposes. However, the Group will constantly assess the foreign exchange risk it encounters so as to decide the hedging policy required against the possible foreign exchange risk that may arise.

### **Staff and Remuneration Policies**

The success of the Group heavily relies on the performance and commitment of all its employees. They are remunerated according to their respective job nature, market conditions, individual performance and qualifications. Other staff benefits include year end bonus. As at 30 June 2011, the Group had approximately 40 employees (31 December 2010: 40 employees) in Hong Kong and the PRC.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2011

	Note	Six months ended 30 June	
		2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
<b>Turnover</b>	3,4	<b>19,059</b>	3,890
Rental outgoings		—	(1,831)
<b>Gross profit</b>		<b>19,059</b>	2,059
Other income		<b>349</b>	1,531
Fair value gains on investment properties		<b>12,163</b>	11,925
Other expenses		<b>(14,936)</b>	(6,646)
<b>Profit from operations</b>		<b>16,635</b>	8,869
Finance costs	5	<b>(1,114)</b>	—
<b>Profit before tax</b>		<b>15,521</b>	8,869
Income tax	6	<b>(5,382)</b>	(1,620)
<b>Profit for the period</b>	7	<b>10,139</b>	7,249
<b>Basic earnings per share</b>	8	<b>0.41 cents</b>	0.32 cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
<b>Profit for the period</b>	<b>10,139</b>	7,249
<b>Other comprehensive income</b>		
Exchange differences on translating foreign operations arising during the period	<b>23,312</b>	410
Other comprehensive income for the period, net of tax	<b>23,312</b>	410
<b>Total comprehensive income for the period</b>	<b>33,451</b>	7,659

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	30 June 2011 \$'000 (Unaudited)	31 December 2010 \$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		1,840	2,094
Investment properties	9	1,039,297	839,317
Prepayments for properties acquisition	10	134,820	15,000
		<b>1,175,957</b>	856,411
<b>Current assets</b>			
Properties under development	11	352,510	330,201
Accounts receivable	12	13,201	4,797
Prepayments, deposits and other receivables		178,509	11,066
Current tax assets		16,280	8,262
Restricted bank deposits	13	71,132	124,418
Bank and cash balances		8,721	17,733
		<b>640,353</b>	496,477
<b>Current liabilities</b>			
Accounts payable		956	1,058
Consideration payables	14	33,007	—
Proceeds received from pre-sale of properties		431,158	223,039
Accruals and other payables		50,840	28,266
Current tax liabilities		4,292	2,286
Finance lease payable		355	347
Bank loans	15	26,544	—
		<b>547,152</b>	254,996
<b>Net current assets</b>		<b>93,201</b>	241,481
<b>Total assets less current liabilities</b>		<b>1,269,158</b>	1,097,892

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2011

	Note	<b>30 June 2011 \$'000 (Unaudited)</b>	31 December 2010 \$'000 (Audited)
<b>Non-current liabilities</b>			
Bank loans	15	<b>101,752</b>	81,199
Finance lease payable		<b>567</b>	746
Deferred tax liabilities		<b>69,877</b>	55,679
		<b>172,196</b>	137,624
<b>NET ASSETS</b>		<b>1,096,962</b>	960,268
<b>Capital and reserves</b>			
Share capital	16	<b>246,882</b>	243,059
Reserves		<b>850,080</b>	717,209
<b>TOTAL EQUITY</b>		<b>1,096,962</b>	960,268

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	(Unaudited)						
	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Reserve on merger accounting \$'000	Exchange fluctuation reserve \$'000	Accumulated loss \$'000	Total \$'000
At 1 January 2010	226,882	905,310	—	(101,922)	169	(513,092)	517,347
Total comprehensive income for the period	—	—	—	—	410	7,249	7,659
Issue of shares	—	—	—	—	—	—	—
Changes in equity for the period	—	—	—	—	410	7,249	7,659
<b>At 30 June 2010</b>	<b>226,882</b>	<b>905,310</b>	<b>—</b>	<b>(101,922)</b>	<b>579</b>	<b>(505,843)</b>	<b>525,006</b>
At 1 January 2011	243,059	1,314,156	—	(101,922)	12,926	(507,951)	960,268
Total comprehensive income for the period	—	—	—	—	23,312	10,139	33,451
Issue of shares	3,823	99,420	—	—	—	—	103,243
Set-off against accumulated losses	—	(507,951)	—	—	—	507,951	—
Attributable to contributed surplus	—	(806,205)	806,205	—	—	—	—
Changes in equity for the period	3,823	(1,214,736)	806,205	—	23,312	518,090	136,694
<b>At 30 June 2011</b>	<b>246,882</b>	<b>99,420</b>	<b>806,205</b>	<b>(101,922)</b>	<b>36,238</b>	<b>10,139</b>	<b>1,096,962</b>

Note:

### (a) Reserve on merger accounting

The reserve on merger accounting was set up upon the share swap for the Company to acquire its subsidiaries.

### (b) Exchange fluctuation reserve

The exchange fluctuation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
Net cash generated from/(used in) operating activities	<b>82,381</b>	(129,299)
Net cash (used in)/generated from investing activities	<b>(134,886)</b>	31,974
Net cash generated from/(used in) financing activities	<b>49,446</b>	(163)
Net decrease in cash and cash equivalents	<b>(3,059)</b>	(97,488)
Effect of foreign exchange rate changes	<b>(5,953)</b>	410
Cash and cash equivalents as 1 January	<b>17,733</b>	108,931
Cash and cash equivalents at 30 June	<b>8,721</b>	11,853
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<b>8,721</b>	11,853

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Room 5709, 57th Floor, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are property development, property investment and property rental activities in the PRC.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements and segment information are consistent with those used in the audited annual financial statements and segment information for the year ended 31 December 2010.

In the current interim period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

#### a. Related Party Disclosures

HKAS 24 (Revised) "Related Party Disclosures" revises the definition of a related party and provides a partial exemption of disclosing related party transactions for government-related entities.

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others),
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

#### a. Related Party Disclosures *(continued)*

(B) *(continued)*

- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

HKAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

- a government that has control, joint control or significant influence over the entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the followings:

- the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and
- the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
  - i. the nature and amount of each individually significant transaction; and
  - ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

HKAS 24 (Revised) has been applied retrospectively and did not result in any significant changes in the consolidated amounts disclosed in the financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 3. TURNOVER

Turnover represents rental income generated during the period.

### 4. SEGMENT INFORMATION

The Group has two reportable segments as follows:

Property sales	—	Property development and sale
Property rental	—	Property investment and property rental activities

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies.

Information regarding the Group's reportable segments is presented below.

#### Information about reportable segments profit or loss, assets and liabilities

	Property sales \$'000	Property rental \$'000	Total \$'000
<b>Six months ended 30 June 2011 (Unaudited)</b>			
Revenue from external customers	—	19,059	19,059
Segment (loss)/profit	(4,693)	20,868	16,175
Other information			
Interest revenue	214	—	214
Depreciation	192	—	192
Fair value gains on investment properties	—	12,163	12,163
Income tax	—	5,382	5,382
<b>At 30 June 2011 (Unaudited)</b>			
Segment assets	612,222	1,068,152	1,680,374
Segment liabilities	438,700	242,391	681,091

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 4. SEGMENT INFORMATION *(continued)*

#### Information about reportable segments profit or loss, assets and liabilities *(continued)*

	Property sales \$'000	Property rental \$'000	Total \$'000
<b>Six months ended 30 June 2010</b>			
<b>(Unaudited)</b>			
Revenue from external customers	—	3,890	3,890
Segment (loss)/profit	(394)	11,861	11,467
Other information			
Interest revenue	6	—	6
Depreciation	32	—	32
Fair value gains on investment properties	—	11,925	11,925
Income tax	—	1,620	1,620
<b>At 31 December 2010 (Audited)</b>			
Segment assets	492,146	859,114	1,351,260
Segment liabilities	312,548	77,523	390,071

#### Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
<b>Profit or loss</b>		
Total profit or loss of reportable segments	<b>16,175</b>	11,467
Unallocated amounts		
Other corporate expenses	<b>(6,036)</b>	(4,218)
Consolidated profit for the six months	<b>10,139</b>	7,249

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 4. SEGMENT INFORMATION *(continued)*

#### Reconciliations of reportable segment revenue, profit or loss, assets and liabilities *(continued)*

	<b>At 30 June 2011 \$'000 (Unaudited)</b>	At 31 December 2010 \$'000 (Audited)
<b>Assets</b>		
Total assets of reportable segments	<b>1,680,374</b>	1,351,260
Unallocated amounts		
Other corporate assets	<b>135,936</b>	1,628
Consolidated total assets	<b>1,816,310</b>	1,352,888
<b>Liabilities</b>		
Total liabilities of reportable segments	<b>681,091</b>	390,071
Unallocated amounts		
Other corporate liabilities	<b>38,257</b>	2,549
Consolidated total liabilities	<b>719,348</b>	392,620

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 5. FINANCE COSTS

	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
Finance lease charges	23	—
Interest on bank loans	4,496	—
Loan management fee	153	—
Total borrowings costs	4,672	—
Amount capitalised	(3,558)	—
	1,114	—

### 6. INCOME TAX

- (a) No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both periods.
- (b) Subsidiaries established in the PRC are subject to PRC Enterprise Income Tax at 25% (six months ended 30 June 2010: 25%). According to the PRC enterprise income tax law and the relevant PRC issued implementation regulation, the Group is subject to PRC withholding income tax of 10% on the gross rental income (six months ended 30 June 2010: 10%).
- (c) Based on the information available, the Directors considered that the taxation of the Group at 30 June 2011 was adequately provided for in the financial statements.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2011

### 7. PROFIT FOR THE PERIOD

Profit for the period is stated at after charging the following:

	Six months ended 30 June	
	2011 \$'000 (Unaudited)	2010 \$'000 (Unaudited)
Auditor's remuneration		
— Audit	450	450
Depreciation	300	140
Operating lease rentals in respect of land and buildings	553	553
Staff costs including directors' emoluments		
— Salaries and allowances	4,213	2,309
— Retirement benefit scheme contributions	100	17
	<b>4,313</b>	<b>2,326</b>

### 8. EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the period of approximately HK\$10,139,000 (six months ended 30 June 2010: approximately HK\$7,249,000) divided by the weighted average number of ordinary shares 2,450,022,881 (six months ended 30 June 2010: approximately 2,268,820,000) in issue during the period.

#### (b) Diluted earnings per share

There were no dilutive potential shares during the six months ended 30 June 2011 and 2010. Therefore, no diluted earnings per shares have been presented.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

For the six months ended 30 June 2011

### **9. INVESTMENT PROPERTIES**

At 30 June 2011, the Group's investment properties, situated in Guangzhou, the PRC, are held under medium-term leases. The investment properties held under operating lease for rental purposes are measured using the fair value model. The fair value of the Group's investment properties at 30 June 2011 was based on the open market value basis, by reference to market evidence of recent transactions for similar properties, appraised by an independent qualified professional valuer. A fair value gain of approximately HK\$12,163,000 was recorded for the six months ended 30 June 2011 (six months ended 30 June 2010: a fair value gain of HK\$11,925,000).

### **10. PREPAYMENTS FOR PROPERTIES ACQUISITION**

At 30 June 2011, the Group's prepayments for properties acquisition represent the prepayment to an independent vender for acquisition of Cheng Chang. At 31 December 2010, the balance of HK\$15,000,000 was the prepayments to Heroic Good Limited for acquisition of certain floors and units of The Royal Mediterranean Hotel.

### **11. PROPERTIES UNDER DEVELOPMENT**

At 30 June 2011, the properties under development were located in Nansha District, Guangzhou, the PRC. A certificate of land use rights was granted whereby the Group has the land use rights over the properties for a term of 70 years for residential use, 40 years for commercial use and 50 years for others commencing from 22 December 1997.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2011

### 12. ACCOUNTS RECEIVABLE

The Group's accounts receivable representing rental receivable from tenants, are due on presentation of invoices.

The aging analysis of accounts receivable, based on the invoice date, is as follows:

	<b>At 30 June 2011 \$'000 (Unaudited)</b>	At 31 December 2010 \$'000 (Audited)
Within 3 months	<b>13,076</b>	2,115
4 — 6 months	—	2,115
7 — 12 months	<b>125</b>	567
	<b>13,201</b>	4,797

### 13. RESTRICTED BANK DEPOSITS

	<b>At 30 June 2011 \$'000 (Unaudited)</b>	At 31 December 2010 \$'000 (Audited)
Guarantee deposits for construction of pre-sale properties (Note a)	<b>68,783</b>	77,411
Pledged bank deposits (Note b)	<b>2,349</b>	47,007
	<b>71,132</b>	124,418

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 13. RESTRICTED BANK DEPOSITS *(continued)*

Notes:

- (a) In accordance with the Administration of Pre-sale of Commodity Premises Regulations of Guangdong Province, the Group is required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for construction of related properties. The deposits can only be used for purchases of construction materials and the payments of construction costs of the relevant property project when approval from Guangzhou Municipal Land Resources and Housing Administrative Bureau is obtained. Such guarantee deposits will only be released after completion of related pre-sale properties.

The restricted bank deposits are denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

- (b) Pledge of the Company's designated bank account maintained with the lender into which rental income from the mortgage properties is deposited, which is used solely for the repayment of principal and interest to the lender. As at 30 June 2011, balance of the pledged bank deposits was approximately HK\$2,349,000.

As at 31 December 2010, balance of the pledged bank deposit was approximately HK\$47,007,000 which was used for the security for a bank loan. This bank loan has been fully settled on 31 March 2011.

### 14. CONSIDERATION PAYABLES

At 30 June 2011, The Group's consideration payables represents the amount due to Heroic Good Limited as the consideration for acquisition of Gains Wide Holdings Limited.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 15. BANK LOANS

	<b>At 30 June 2011 \$'000 (Unaudited)</b>	At 31 December 2010 \$'000 (Audited)
Bank loans — secured	<b>128,296</b>	81,199
The bank loans are repayable as follows:		
Within one year	<b>26,544</b>	—
In the second to fifth years, inclusive	<b>101,752</b>	81,199
	<b>128,296</b>	81,199

At 30 June 2011, the effective interest rate on the bank loans was 4.92%-5.04%

The bank loans are arranged at floating interest rates, thus exposing the Group to cash flow interest rate risk.

At 30 June 2011, the bank loan were secured by the corporate guarantees of the Company, and the pledge of certain rental income and certain investment properties of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2011

### 16. SHARE CAPITAL

	Number of shares		Share Capital	
	2011	2010	2011 \$'000	2010 \$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	4,000,000,000	4,000,000,000	400,000	400,000
<b>Issued and fully paid:</b>				
Ordinary shares of HK\$0.1 each				
At 1 January	2,430,592,152	2,268,820,000	243,059	226,882
Issue of shares	38,227,848	—	3,823	—
<b>At 30 June</b>	<b>2,468,820,000</b>	<b>2,268,820,000</b>	<b>246,882</b>	<b>226,882</b>

### 17. MATERIAL ACQUISITIONS AND DISPOSALS

- a) On 31 March 2011, the Company completed the acquisition of 100% shareholding interest in Gains Wide Holdings Limited ("Gains Wide"). Gains Wide holds the entire issued share capital of Speedy Full Limited ("Speedy Full"). Speedy Full owns the interests in 31st, 32nd, 33rd and 35th property floors of the Royal Mediterranean Hotel. As at completion and pursuant to the terms of Share Transfer Agreement, 38,227,848 Consideration Shares were allotted and issued to the vendor and a balance of cash consideration (after deducting an outstanding loan amount) was paid to the vendor.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 17. MATERIAL ACQUISITIONS AND DISPOSALS *(continued)*

- b) On 21 April 2011, the Group entered into a share transfer agreement with an independent vendor. The Group has conditionally agreed to purchase the entire issued share capital of Cheng Chang Holdings Limited ("Cheng Chang") at an aggregate consideration of RMB520 million. Cheng Chang owns the entire issued share capital of Fully Wise Investment Limited, which is interested as to 80% of Guangdong Hailian Building Co., Ltd.\*, which in turn owns the entire interest in a parcel of land at Lot A2-1, Zhujiang New Town, Tianhe District, Guangzhou, the PRC with land area of approximately 10,449 square meters.

On 30 June 2011, the Group and the independent vendor entered into the Supplemental Agreement to supplement or amend certain terms and conditions of the Share Transfer Agreement, pursuant to which the consideration for the Sale Share has been adjusted from RMB520 million to RMB492 million.

As at the interim results reporting date, the acquisition has not been completed.

### 18. CONTINGENT LIABILITIES

(a)	<b>At 30 June 2011 \$'000 (Unaudited)</b>	At 31 December 2010 \$'000 (Audited)
Guarantees given to banks for mortgage facilities granted to and utilised by purchasers	<b>129,968</b>	59,483

\* English name is translated for identification purposes only

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2011

### 18. CONTINGENT LIABILITIES *(continued)*

(a) *(continued)*

The Group provided guarantees in respect of mortgage facilities granted by three banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there are any defaults on the mortgages, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulting purchasers to banks. The Group is then entitled to take over the legal title and possession of the related properties. The guarantees shall be released upon the purchasers' property ownership certificates were issued and in the custody of the banks.

At the reporting date, the directors do not consider it probable that a claim will be made against the Group under the above guarantees.

The fair value of the guarantees at date of inception is not material and is not recognised in the financial statements.

- (b) In addition, the Group pledged certain investment properties to a bank in respect of a term loan granted to a tenant. As at 30 June 2011, the outstanding bank loan together with interest amounted to approximately HK\$29,821,000. The loan was subsequently repaid and the pledge relating to the investment properties was discharged.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2011

### 19. LEASE COMMITMENTS

At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2011 \$'000 (Unaudited)	At 31 December 2010 \$'000 (Audited)
Within one year	1,106	1,106
In the second to fifth years inclusive	92	646
	<b>1,198</b>	1,752

Operating lease payments represent rentals payable by the Group for certain of its offices.

### 20. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions and balances with its related parties:

#### (a) Key management personnel compensation

The key management personnel of the Group comprises all Directors and their remuneration during the period was HK\$970,000 (six months ended 30 June 2010: HK\$870,000).

#### (b) Transactions and balances with related parties

Included in accruals and other payables are amounts in total of approximately HK\$2,665,000 (i) approximately HK\$145,000 (31 December 2010: approximately HK\$145,000) representing accrued directors' emoluments due to the Company's directors. The accrued directors' emoluments are unsecured, interest-free and are settled in cash; and (ii) approximately HK\$2,520,000 representing loan from a shareholder — Rong De Investments Limited. The due balance is unsecured, interest-free and repayable in demand.

## OTHER INFORMATION

### Interim Dividend

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

### Directors' and Chief Executive's Interests in Shares

As at 30 June 2011, save as disclosed in the section headed "Substantial Shareholders", none of the directors and chief executive of the Company had, under Part XV of the Securities and Futures Ordinance, nor were they taken to or deemed to have under such provisions of the Securities and Futures Ordinance, any interests in the shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance or any interests which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

### Directors' Interests in Contracts

Save as disclosed in note 20, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest subsisted, either directly or indirectly at any time during the period.

### Competing Interests

Pursuant to Rule 8.10 of the Listing Rules, during the period and as at 30 June 2011, Mr. Huang Jia Jue, an executive director of the Company, was also the director of Guangzhou Zhuguang Property Development Company Limited\* ("Guangzhou Zhuguang Property"). In addition, Mr. Chu Hing Tsung, alias Mr. Zhu Qing Yi and Mr. Chu Muk Chi, alias Mr. Zhu La Yi (both are executive directors of the Company) had significant influence in Guangzhou Zhuguang Property. Guangzhou Zhuguang Property is engaged in the businesses of property development, investment and property rental in the PRC (the "competing businesses"). As such, they were regarded as being interested in such competing businesses, which competed or might compete with the Group. However, as none of the above directors can control the Board, and that a director who has material interest in a subject matter to be resolved will abstain from voting in the Board meeting concerned, the interests of the above directors in the competing businesses will not prejudice their capacity as director nor compromise the interests of the Group and the shareholders.

\* English name is translated for identification purposes only

## OTHER INFORMATION *(continued)*

### Competing Interests *(continued)*

Other than as disclosed above, none of the directors or any of their respective associates of the Company were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

### Purchase, Sales or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

### Substantial Shareholders

As at 30 June 2011, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Note	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (Note 3)
Rong De Investments Limited ("Rong De")		Beneficial owner	1,302,600,000 (L)	52.76%
Mr. Chu Muk Chi (alias Mr. Zhu La Yi)	1	Interest of a controlled corporation	1,302,600,000 (L)	52.76%
Mr. Liao Tengjia	1	Interest of a controlled corporation	1,302,600,000 (L)	52.76%
Shoreline China Value I, L.P.	2	Security interest	465,000,000	18.83%
Bunstat International Group Limited	2	Security interest	300,000,000	12.15%

*(L) Long position*

## **OTHER INFORMATION** *(continued)*

### **Substantial Shareholders** *(continued)*

Notes:

- (1) Rong De is legally and beneficially owned as to 40% by Mr. Chu Muk Chi and as to 60% by Mr. Liao Tengjia. Mr. Chu and Mr. Liao are deemed to have interests in the 1,302,600,000 shares beneficially owned by Rong De under the SFO.
- (2) Among the Shares owned by Rong De Investments Limited, 465,000,000 Shares and 300,000,000 Shares have been pledged by Rong De Investments Limited to Shoreline China Value I, L. P. and Bunstat International Group Limited respectively.
- (3) For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 246,882,000 shares in issue.

Save as disclosed above, so far as are known to the Directors, the Company has not been notified of any interest in the issued share capital of the Company required to be recorded under section 336 of the SFO as at 30 June 2011.

## **CORPORATE GOVERNANCE**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize on a quality board of Directors (the "Board"), sound internal control, transparency and accountability to all shareholders of the Company.

The Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2011 (except code provision A.4.2).

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the articles of association of the Company, the chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of Directors

to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of the Board should not be subject to retirement by rotation.

## **COMPLIANCE WITH THE MODEL CODE**

The Group has adopted the Model Code. Upon specific enquiry by the Company, all Directors confirmed that they have fully complied with the required standards set out in the Model Code throughout the six months ended 30 June 2011.

## **AUDIT COMMITTEE**

The audit committee comprises three Independent Non-executive Directors of the Company. The audit committee has reviewed with management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2011, which is of opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

By Order of the Board  
**Zhuguang Holdings Group Company Limited**  
**Liao Tengjia**  
*Chairman*

Hong Kong, 22 August 2011