China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Interim Report 2016

POWER VISION

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Wang Shih Chang, George *(Chairman)*
Mr. Wong Sai Chung *(Managing Director)*
Mr. Xu Li Chang

Non-executive Director

Mr. Kwan Kai Cheong

Independent Non-executive Directors

Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

COMMITTEES

Audit Committee

Mr. Warren Talbot Beckwith *(Chairman)*
Mr. Cheng Chaun Kwan, Michael
Mr. Luk Koon Hoo
Mr. Garry Alides Willinge
Mr. Wu Zhi Gao

Remuneration Committee

Mr. Garry Alides Willinge *(Chairman)*
Dr. Wang Shih Chang, George
Mr. Luk Koon Hoo

Nomination Committee

Dr. Wang Shih Chang, George *(Chairman)*
Mr. Warren Talbot Beckwith
Mr. Cheng Chaun Kwan, Michael

AUTHORIZED REPRESENTATIVES

Dr. Wang Shih Chang, George
Mr. Wong Sai Chung

COMPANY SECRETARY

Ms. Yu Ling Ling

STOCK CODE

1838

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14th Floor, Wheelock House
20 Pedder Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square,
Hutchins Drive,
P.O. Box 2681
Grand Cayman KY1-1111,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of Beijing
China Merchants Bank
Postal Savings Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

www.cpg-group.com

BUSINESS REVIEW AND OUTLOOK

At first glance, property sales in the PRC will remain hot in 2016. High level of borrowings from M&A projects, property markets and stock markets around the globe has far exceeded that before the outbreak of the global financial crisis in 2008. It appears that Brexit has not created such an extraordinarily severe impact on Europe, the US and emerging markets, as anticipated by central banks and speculators around the globe, that it forces us to pull out from the market because of our worries about a possible repeat of the financial crisis in 2008. At present, the facts are: firstly, central banks continue with quantitative easing. Near-zero low interest rates have attracted both big financial players in the market and common people on the street to struggle with securing and employing "borrowings" and "leverage" as tools in the property markets, stock markets and gigantic M&A projects. On the other hand, the clamor for land bids at extortionate prices is growing louder in various PRC cities. It is difficult to resist this flood of speculation for a moment because it has turned a gloomy world into a heated market. As a result, risks are concealed by the excited boom: if there is a threat of a fall in the exchange rate of one euro against one US Dollar under this misleading condition, "depression" will surface after hot money is poured into buying euro and US dollar so that a financial disaster triggered by the "shortage of money" will rock the financial institutions in these two regions. Can the real economy escape the fate of a prolonged recession? Secondly, some people said that risks have not arisen yet. However, the current credit with a low or negative interest rate return is being replaced by gold or cash. At that time, the financial system will reduce its "leverage" ratio by keeping cash as king in order to preserve its treasures. So, banks will decrease the level of quantitative easing substantially. Their policy to keep creating credit obviously fails to work effectively under the long-term zero-interest environment. We then question how can enterprises and individuals pay their debt if they are not able to earn money? So, will financial institutions, which are already on the verge of falling down, be far from collapse? The recession in the already fragile real economy is by no means to be curbed by the power of a government! We certainly need to applaud innovation and the new economy for promoting the well-being of mankind. However, to get to know this visible risk is by no means something pessimistic about the current economy. It is just because we need to remain sober-minded in the face of fiery speculative passion! The same old strategy still applies: sell residential property to take advantage of high prices. Of course, we are sorry to say that we have a number of large residential property projects worth of several tens of billions going under approval process, but large-scale sales will be delayed until early next year because of the extreme difficulty of the project design and engineering. If we are lucky, we will probably find a dream-like, surprising investment opportunity when the market remains sluggish then. This is what we want to thank our shareholders for their long-term support.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's GDP growth by 1H 2016 was recorded at 6.7%, representing a slight decline when compared to 7.0% in the same period of last year.

The overall residential market in China remained positive in 1H 2016. While first-tier cities continued to impose restrictions on certain investment activities in the residential property market, other cities encouraged sales in order to resolve high inventory levels. In 1H 2016, Beijing's municipal government took further steps to restrict speculation in Tongzhou District. However, speculation there has been related to the city's government move to the Tongzhou area, and has not spread throughout the city. As such, while Beijing's purchase restrictions are expected to remain in place for the coming half year, no major change is forecasted. In Shanghai, purchase sentiment cooled following the government's move in March to raise the minimum down payment for second homes and increase the tax payment threshold for non-local buyers.

MANAGEMENT DISCUSSION AND ANALYSIS

China's retail sales expanded to RMB2,685.7 billion in 1H 2016, representing a growth of 10.6% year-on-year, according to the National Statistics Bureau. The e-commerce market has been developing rapidly over the past quarters. As of 1H 2016, the national online retail sales of goods & services were RMB2,236.7 billion, increased by 28.2% year-on-year. Of which, the online retail sales of physical goods was RMB1,814.3 billion, increased by 26.6%. Of the online retail sales of physical goods, food, clothing and other commodities went up by 36.0%, 16.9% and 30.1% respectively. The large populations, high consumption expenditure and sophistication of both consumers and operators continued to make first-tier cities attractive to retailers. In the prime retail area of first-tier cities, rental level is expected to remain buoyant for the remainder of 2016, given the limited supply and strong demand from domestic and international retailers for both new stores and expansion. Established high-end properties are expected to further adjust towards a contemporary fashion or mass market positioning to attract a wider range of consumers.

China's office property market continued to expand in 1H 2016 in most major cities. Underpinned by the steady growth of the tertiary industry, the vacancy rates of Grade A office spaces in Beijing stayed low at 5.9% as of the first half of 2016. The new VAT tax structure was expanded to the real estate industry in May, applying a rate of 11% of VAT. However, it is too early to assess what long term impact the change will have on landlords and tenants. In the short term, the government's strict control of the P2P industry and the resulting widespread retreat of such tenants will pose a challenge for a number of landlords. This will present opportunities for certain tenants, who may gain a stronger negotiating position with landlords of desirable buildings. In the coming quarters, however, this vacant space is expected to be easily absorbed by other sectors of the finance industry (banks, securities companies, and wealth management firms, among others), professional service companies, and growing sectors such as shared office companies and "internet plus" businesses.

Overview of the Shanghai Property Market

Shanghai has maintained a steady economic growth. As of 1H 2016, Shanghai's GDP grew by 6.7% year-on-year to RMB1,295.7 billion.

Shanghai's new commodity housing market saw a drop in sales volume but a rise in the average sales price during 2Q 2016. Purchase sentiment cooled following Shanghai's Bureau of Housing and Urban-Rural Development, along with other three government agencies' move in March to raise the minimum down payment for second homes from 40% to either 50% or 70% and increase the tax payment threshold for non-local buyers. In line with this government direction, both home buyers and developers became more cautious, and the sales volume slowed in 1H 2016. However, the average sales price remained at a high level. Sales of high-end and luxury properties range pulled up the city's average sales price by 9.4% year-on-year to RMB35,056 per square metre.

Shanghai's retail sales grew by 7.6% year-on-year during the first half of 2016, according to the Shanghai Statistics Bureau. Notably, the children's care sector has been a source of strong demand. In 1H 2016, the proportion of this sector in the average trade mix in Shanghai's retail properties increased by 0.8 percentage points half-on-half to 3.7%, with openings and leases from the first China Legoland Discovery Centre at Parkside Plaza; the first Global NBA Play Zone at Corporate Avenue Mall; and Golden Ballet Dance at Laya Plaza. Shanghai's retail real estate investment market was active in 1H 2016, with two en-bloc sales announced. Developments with stable leasing agreements in prime locations and communities with high population density and value-added potential remained attractive.

Shanghai's tertiary industry grew by 11.6% year-on-year in 1H 2016, according to the Shanghai Statistics Bureau. Despite this stable economic indicator, widespread retreats from tenants in the P2P sector and new supply led the overall vacancy rate in the CBD to adjust upward in the second quarter. Correspondingly, the average rent faced a correction in the second quarter. Nonetheless, new demand continued to come from the legal, finance, IT and professional services sectors, with a notable number coming from the domestic companies. It is expected that they will easily absorb the vacant spaces.

Overview of the Chongqing Property Market

Chongqing's GDP was recorded at a growth of 10.6% by 1H 2016 year-on-year.

The overall residential market in Chongqing remained stable due to a series of monetary policies attempting to stimulate the economy and real estate market together with the favorable housing policies. The recorded number of residential units transacted during 2Q 2016 was 54,605, representing a 10.6% increase compared to that in 2Q 2015. The average transacted unit price increased by 2.8% quarter-on-quarter to RMB6,836 per square metre. Moving forward until the end of this year, the overall residential market in Chongqing is anticipated to remain stable, which is supported by positive statistics recorded as well as favourable home policies introduced.

The total retail sales of Chongqing grew by 12.9% to RMB350.5 billion in the first half of 2016. This signified a continuous demand of retail spaces in Chongqing. The vacancy rate in prime retail areas stayed low. Prime shopping mall rents recorded a slight increase to an average of RMB23.8 per square metre per day as at 1Q 2016. Two high-end shopping malls, Coincord International Centre in Guanyinqiao and IFS in the Jiangbeizui CBD, are expected to launch onto the market in the coming quarters. These two high-end shopping malls are expected to assist in attracting more long term cooperative high-end brands to enter the city, such as Dior and Chanel. Brands within the city's retail market, especially fast-fashion brands and F&B brands, are largely homogenized across a number of malls. Therefore, the introduction of new and unique brands to the market has become an effective way for many shopping centres to attract consumers.

Two Grade A office projects, totaling over 60,000 square metres, entered into the leasing market in 1Q 2016. In Jiefangbei CBD, the traditional prime area, stable demand combined with the absence of new supply resulted in a rapid drop in vacancy rates. Average Grade A office rents recorded at an average of RMB99.6 per square metre per month as at 2Q 2016. The city's transformation into a regional financial centre should benefit from further liberalization and innovation within the financial markets, generating huge office space demand from domestic financial enterprises and increasing total city-wide demand levels. Investors will continue to favour office buildings with higher-quality facilities and better accessibility.

Outlook of the Mainland Property Market

Urbanization would continue to drive up demand and developers would keep looking for reducing inventories. The relaxation of one-child policy would increase the population and eventually lift demand for residential upgrades. China's residential market will continue to focus on inventory absorption in short- to mid-term, with steady growth in prices.

For China's retail property market, the rental level in the prime retail area of first-tier cities is expected to remain stable given the limited supply and strong demand from domestic and international retailers for both new stores and expansion. Changing shopping patterns and development of e-commerce would drive continuous upgrading of stocks and adjustment to trade and brand mixes. Retailers from the fast fashion, F&B, lifestyle and children's care are expected to actively expand. All in all, the retail landscape in China is anticipated to remain stable with positive actions in place.

MANAGEMENT DISCUSSION AND ANALYSIS

China's office property landscape is deemed to remain healthy in the second half of 2016. Grade A offices located in prime locations still remained in high demand despite the increasing new supply of offices entering into the market. Rental growth will be constrained amidst the large volume of future supply in short-run. This will be particularly noticeable in CBD of first-tier cities.

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the first half of 2016 amounted to HK$777 million (six months ended June 30, 2015: HK$1,000 million), a decrease of 22% when compared to the same period of 2015. The profit before taxation, excluding changes in fair value of investment properties and conversion option derivative, amounted to HK$47 million (six months ended June 30, 2015: loss of HK$21 million).

Basic earnings per share were HK$0.43 (six months ended June 30, 2015: HK$0.55), a decrease of 22%.

Total assets increased to HK$66,512 million from HK$66,481 million as at December 31, 2015, as the Group continues its investment in premium property developments with attendant appreciation in fair value. Net assets, the equivalent of shareholders' funds, decreased to HK$42,782 million (December 31, 2015: HK$43,029 million). In terms of value per share, net assets value per share is HK$23.65 as at June 30, 2016, as compared to HK$23.79 as at December 31, 2015.

The Group's revenue of HK$163 million (six months ended June 30, 2015: HK$43 million) increased by 279% when compared with the corresponding period last year which was mainly resulted from the increase in revenue from sales of residential properties of Shanghai Concord City Phase I.

The revenue from sales of residential properties amounted to HK$153 million (six months ended June 30, 2015: HK$40 million), increased by 283% as compared with the corresponding period last year. The Group delivered gross floor area ("GFA") of approximately 37,880 sq. ft. in the six months ended June 30, 2016 as compared to 51,490 sq. ft. in the corresponding period last year. In addition, the Group sold 63 (six months ended June 30, 2015: nil) car parking spaces of Chongqing Manhattan City Phase I and II, which contributed revenue of HK$5 million (six months ended June 30, 2015: nil).

Gross profit margin for sales of development properties was 73% (six months ended June 30, 2015: 60%).

Income from property leasing amounted to approximately HK$1 million (six months ended June 30, 2015: HK$1 million). This was resulted from the termination of certain tenancies for the future upgrade construction of the mall development. Property management income increased by 100% to HK$4 million (six months ended June 30, 2015: HK$2 million).

The construction of Chongqing Manhattan City, Lijiu Road with total GFA of approximately 21 million sq. ft. continues. During the six months ended June 30, 2016, the Group generated income of HK$15 million from sales of residential properties and car parking spaces of Chongqing Manhattan City Phase I and II (six months ended June 30, 2015: HK$30 million).

Deposits received on sales of properties increased to HK$201 million from HK$84 million as at December 31, 2015. This was primarily due to the commencement of pre-sale of residential properties of Chongqing Manhattan City Phase III during the period. The corresponding contracted sales and contracted GFA amounted to HK$88 million and 160,946 sq. ft. respectively.

Other income, gains and losses, net were HK$11 million (six months ended June 30, 2015: HK$6 million). The change is mainly due to recognition of gain of HK$9 million on disposal of car parking spaces of Shanghai Cannes that have been designated as investment properties.

During the period under review, selling expenses were HK$11 million (six months ended June 30, 2015: HK$5 million), an increase of 120%. It was resulted from increase in advertising expenses incurred for pre-sale of residential properties of Chongqing Manhattan City Phase III and sales commission which was in line with the change in revenue from sale of properties and deposits received on sales of properties.

Administrative expenses during the first half of 2016 were HK$34 million (six months ended June 30, 2015: HK$42 million) which decreased by 19% compared to the same period of 2015. The decrease was mainly attributed to cost savings and drop in one-off expenses.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest expense on convertible note and the fixed-rate senior notes. Since all finance costs equivalent to HK$455 million (six months ended June 30, 2015: HK$443 million) were wholly capitalized on various projects, the finance costs charged to profit and loss were nil (six months ended June 30, 2015: nil).

The changes in fair value of investment properties were HK$1,010 million (six months ended June 30, 2015: HK$1,467 million). Although the transaction volume of the property market was shrinking with the launch of new real estate tightening measures in recent years, the property price remained steady during the period because the underlying demand remained strong. On the other hand, the central government's blueprint that advocates Shanghai to become an international financial hub in 2020 also benefited local businesses including the retail and office property markets. Combining these factors, the valuation of investment properties in the first half of 2016 is still appreciating. The changes in fair value of investment properties in Shanghai experienced an increase of HK$1,002 million (six months ended June 30, 2015: HK$901 million). Economic performance in Chongqing, which enjoys one of the highest GDP growth cities in the PRC, was also robust. The changes in fair value of investment properties in Chongqing experienced an increase of HK$8 million (six months ended June 30, 2015: HK$566 million).

Income tax expense was HK$278 million (six months ended June 30, 2015: HK$368 million). The Group's effective income tax rate was 26.4% (six months ended June 30, 2015: 26.9%).

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium term basis and arranges refinancing of the Group's borrowing when appropriate. During the period, the Group raised net new bank and other loans totaling of approximately HK$242 million (six months ended June 30, 2015: HK$221 million), while the Group repaid a shareholder of approximately HK$47 million (six months ended June 30, 2015: advance of HK$167 million).

As at June 30, 2016, the Group's 13.5% fixed-rate senior notes, bank and other borrowings, amount due to a shareholder and convertible note amounted to HK$1,956 million (December 31, 2015: HK$1,973 million), HK$5,548 million (December 31, 2015: HK$5,306 million), HK$1,954 million (December 31, 2015: HK$2,001 million) and HK$406 million (December 31, 2015: HK$372 million) respectively, and the Group's total borrowings were HK$9,864 million (December 31, 2015: HK$9,652 million), an increase of HK$212 million when compared to December 31, 2015. HK$2,926 million (December 31, 2015: HK$3,856 million) is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at June 30, 2016 was 22.1% (December 31, 2015: 21.6%), determined as proportion of the Group's net borrowings (after deducting bank balances and bank deposits) to the shareholder's funds.

With cash in hand and banking facilities available, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

There was no material acquisition and disposal of group companies during the period.

TREASURY POLICIES

As at June 30, 2016, approximately 76% (December 31, 2015: 75%) of the Group's borrowings were in RMB with the remaining balance denominated in US$ and HK$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in HK$ and RMB.

The bank borrowings are mainly on a floating-rate basis while the other borrowings, senior notes and convertible note are on a fixed-rate basis.

The functional currency of the respective group entities is RMB, the currency of the primary economic environment in which the Group operates. For the purpose of the condensed consolidated financial statements and convenience of the financial statements users, the condensed consolidated results and financial position of the Group are expressed in HK$, the presentation currency for the condensed consolidated financial statements.

The Group has not used any interest rate or foreign currency derivative instrument to hedge its exposure to interest rate and foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

During the period, the Group has complied with all banking covenants.

CHARGE ON ASSETS

As at June 30, 2016, certain subsidiaries of the Group pledged assets with an aggregated carrying value of HK$56,442 million (December 31, 2015: HK$51,714 million) to secure bank and other loan facilities.

CONTINGENT LIABILITIES

As at June 30, 2016, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK$896 million (December 31, 2015: HK$950 million). During the first half of 2016, there was no default case.

Legal disputes

As at June 30, 2016, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales, properties held for sale and property, plant and equipment and the withdrawal of bank deposits in an aggregate amount of approximately HK$297 million and HK$7 million respectively as at June 30, 2016 (December 31, 2015: HK$60 million and HK$3 million respectively). In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards. Pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or in the process of making counter-claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advice from the independent legal advisors and internal legal counsel of the Group, those outstanding legal claims are still in preliminary stage and hence the final outcome is unable to be determined at this stage. The legal claims amounted to approximately HK$27 million (December 31, 2015: HK$35 million) in aggregate. Accordingly no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the period.

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2016, the Group had approximately 371 employees (June 30, 2015: 379 employees) in Hong Kong and the PRC. There is no significant change in the Group's emolument policies.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

Directors' and Chief Executives' Interests in Securities of the Company

As at June 30, 2016, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in ordinary shares of HK$0.1 each of the Company

As at June 30, 2016, the long position in ordinary shares and underlying shares of the Company of the directors and the chief executives are as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	*Note*
Mr. Wong Sai Chung ("Mr. Wong")	Corporate	1,563,411,570 shares	86.42%	*(i) & (ii)*
Mr. Cheng Chaun Kwan, Michael ("Mr. Cheng")	Personal & family	1,000,000 shares	0.06%	*(iii)*

Notes:

(i) Of these shareholding interests, 1,356,800,000 shares of the Company are directly held by Hillwealth Holdings Limited ("Hillwealth") whose entire issued share capital is owned by Mr. Wong.

(ii) Such shareholding interests also included deemed interests in 206,611,570 shares of the Company to be issued upon the exercise of the conversion rights under the convertible note of HK$500 million of the Company agreed to be subscribed for by Hillwealth pursuant to the conditional subscription agreement dated January 27, 2012 entered into between the Company and Hillwealth (as amended by a supplemental agreement dated February 21, 2012).

(iii) Of these shareholding interests, 500,000 shares are directly held by Mr. Cheng and 500,000 shares are held by Mr. Cheng's spouse.

(b) Long position in shares of associated corporations of the Company

Name of director	Nature of interest	Name of associated corporation	Number of issued ordinary shares held	Percentage of the issued share of the same class in the associated corporation	*Note*
Mr. Wong	Corporate	Concord Properties Holding (Shanghai) Limited ("CPH (Shanghai)")	100 non-voting deferred class "B" shares of HK$1.00 each	100%	*(iv)*
	Personal	Hillwealth	1 share of US$1.00	100%	*(v)*

Notes:

(iv) CPH (Shanghai) is an indirectly owned subsidiary of the Company. It has in issue 100 non-voting deferred class "B" shares (the rights attached to which are set out in the Prospectus), all of which are beneficially owned by Concord China Land Holdings Limited which is in turn beneficially and wholly owned by Pacific Concord Holding Limited ("PCH") (which is wholly owned by Mr. Wong).

(v) As Hillwealth directly holds approximately 75% of the total issued share capital of the Company and thus being the holding company of the Company, Hillwealth is an associated corporation of the Company under the SFO. The entire issued share capital of Hillwealth is owned by Mr. Wong.

As at June 30, 2016, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

(c) Long positions in debentures of the Company

As at June 30, 2016, the long position in debentures of the Company of the directors and chief executives are as follows:

Name of director	Nature of interest	Amount of Debentures
Mr. Cheng	Family	US$200,000

Save as disclosed herein, as at June 30, 2016, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and Chief Executives' Interests in Shares and Underlying Shares and Debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at June 30, 2016 and as at the date of this report.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

SHARE OPTION SCHEME

On July 3, 2013, 36,000,000 share options to subscribe for ordinary shares of HK$0.10 each of the Company were granted to certain eligible participants ("the Grantees"), subject to acceptance of each of the Grantees, under the share option scheme adopted by the Company on February 2, 2007. The 36,000,000 share options were lapsed on July 2, 2015.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended June 30, 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in amended Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. The directors have confirmed that, following specific enquiry by the Company, they have complied with the required standards set out in Model Code during the six months ended June 30, 2016.

CORPORATE GOVERNANCE CODE

The Company has fully complied with all code provisions in the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2016.

AUDIT COMMITTEE

The Company has established the Audit Committee and has formulated its written terms of reference in accordance with the provisions set out in the CG Code. The Audit Committee comprises five Independent Non-executive Directors, namely Mr. Warren Talbot Beckwith (Chairman of the Audit Committee), Mr. Luk Koon Hoo, Mr. Garry Alides Willinge, Mr. Cheng Chaun Kwan, Michael and Mr. Wu Zhi Gao. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal controls procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. The Audit Committee and the external auditor, Messrs Deloitte Touche Tohmatsu, Certified Public Accountants, have reviewed the unaudited interim results of the Group for the six months ended June 30, 2016.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with majority of the members being Independent Non-executive Directors. The Remuneration Committee comprises the Chairman of the Board, Dr. Wang Shih Chang, George, and two Independent Non-executive Directors, namely Mr. Luk Koon Hoo and Mr. Garry Alides Willinge (Chairman of Remuneration Committee).

The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remunerations.

APPRECIATION

The directors of the Company would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

By Order of the Board
CHINA PROPERTIES GROUP LIMITED
Dr. Wang Shih Chang, George
Chairman

Hong Kong, August 29, 2016

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA PROPERTIES GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 15 to 40, which comprise the condensed consolidated statement of financial position as of June 30, 2016 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 29, 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2016

	NOTES	Six months ended June 30, 2016 HK$'000 (unaudited)	2015 HK$'000 (unaudited)
Revenue	3 & 4	**162,769**	42,987
Cost of sales		**(50,946)**	(22,499)
Gross profit		**111,823**	20,488
Other income, gains and losses, net	4	**10,768**	5,907
Net exchange (loss) gain		**(30,713)**	8
Selling expenses		**(10,995)**	(5,455)
Administrative expenses		**(33,964)**	(41,870)
Finance costs	5	**—**	—
Profit (loss) from operation before changes in fair value of investment properties and conversion option derivative		**46,919**	(20,922)
Changes in fair value of investment properties		**1,010,044**	1,466,716
Changes in fair value of conversion option derivative		**(1,994)**	(77,906)
Profit before tax		**1,054,969**	1,367,888
Income tax expense	6	**(278,222)**	(368,123)
Profit for the period attributable to owners of the Company	7	**776,747**	999,765
Earnings per share			
Basic (HK dollar)	8	**0.43**	0.55
Diluted (HK dollar)	8	**0.39**	0.53

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2016

		Six months ended June 30,	
		2016	2015
	NOTES	**HK$'000**	HK$'000
		(unaudited)	(unaudited)
Profit for the period		**776,747**	999,765
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(1,023,637)**	(15,509)
Total comprehensive (expense) income for the period attributable to owners of the Company		**(246,890)**	984,256

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2016

	NOTES	June 30, 2016 HK$'000 (unaudited)	December 31, 2015 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**384,982**	371,431
Prepaid lease payments		**113,031**	117,525
Investment properties	10	**59,282,962**	59,306,686
		59,780,975	59,795,642
Current Assets			
Properties under development for sales		**5,631,063**	5,737,599
Properties held for sales		**549,267**	416,154
Trade and other receivables, deposits and prepayments	11	**157,943**	157,803
Pledged bank deposits		**276,110**	155,578
Bank balances and cash		**116,968**	218,122
		6,731,351	6,685,256
Current Liabilities			
Deposits received for sales of properties		**201,379**	84,200
Construction costs accruals		**203,382**	255,530
Other payables and accruals		**185,090**	143,875
Amount due to a shareholder	19(i)	**1,953,934**	2,000,735
Tax payable		**797,692**	786,854
Borrowings — due within one year	12	**894,436**	1,790,154
		4,235,913	5,061,348
Net Current Assets		**2,495,438**	1,623,908
Total Assets less Current Liabilities		**62,276,413**	61,419,550
Non-current Liabilities			
Borrowings — due after one year	12	**4,653,698**	3,516,090
13.5% fixed-rate senior notes, non-current portion	13	**1,900,318**	1,917,915
Convertible note, non-current portion	14	**383,662**	362,117
Conversion option derivative	14	**72,748**	70,754
Deferred tax liabilities		**12,483,589**	12,523,386
		19,494,015	18,390,262
Net Assets		**42,782,398**	43,029,288
Capital and Reserves			
Share capital	15	**180,907**	180,907
Share premium and reserves		**42,601,491**	42,848,381
Total Equity		**42,782,398**	43,029,288

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2016

	Attributable to owners of the Company										
	Share capital	**Share premium**	**Revaluation reserve**	**Special reserve**	**Other reserve**	**General reserve**	**Shareholder contribution reserve**	**Share option reserve**	**Exchange reserve**	**Retained earnings**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Note (a))	(Note (b))	(Note (c))	(Note (d))				
At January 1, 2015 (audited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	233,049	8,857	5,588,296	32,915,206	43,598,407
Profit for the period	—	—	—	—	—	—	—	—	—	999,765	999,765
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	(15,509)	—	(15,509)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	(15,509)	999,765	984,256
Recognition of share-based payments	—	—	—	—	—	—	—	2,931	—	—	2,931
At June 30, 2015 (unaudited)	180,907	1,378,443	6,410	778,662	2,455,562	53,015	233,049	11,788	5,572,787	33,914,971	44,585,594
At January 1, 2016 (audited)	**180,907**	**1,378,443**	**6,410**	**778,662**	**2,455,562**	**53,015**	**233,049**	**—**	**3,485,273**	**34,457,967**	**43,029,288**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**776,747**	**776,747**
Other comprehensive expense for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,023,637)**	**—**	**(1,023,637)**
Total comprehensive (expense) income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,023,637)**	**776,747**	**(246,890)**
At June 30, 2016 (unaudited)	**180,907**	**1,378,443**	**6,410**	**778,662**	**2,455,562**	**53,015**	**233,049**	**—**	**2,461,636**	**35,234,714**	**42,782,398**

Notes:

(a) Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganization ("Corporate Reorganization") to rationalize the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(b) Other reserve arose from the acquisition by Mr. Wong Sai Chung ("Mr. Wong"), the ultimate controlling shareholder of the Company, of the interests in the Company's subsidiaries owned by other shareholders and the implementation of the Corporation Reorganization.

(c) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC may make an allocation to the general reserve from its profit for the year (prepared under the generally accepted accounting principles in the PRC) at a rate determined by directors of the relevant subsidiaries. The general reserve can only be used upon approval by the board of directors of the relevant subsidiaries to offset accumulated losses or increase capital.

(d) Shareholder contribution reserve mainly represents the deemed contribution arising from the loan from a shareholder, Mr. Wong.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

	Six months ended June 30,	
	2016	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**119,831**	(248,400)
NET CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,060)**	(2,931)
Additions to investment properties	**(79,006)**	(54,199)
Proceeds received from disposal of investment properties	**41,250**	5,167
Withdrawal of pledged bank deposits	**93,946**	31,976
Placement of pledged bank deposits	**(220,054)**	(164,842)
Interest received	**2,082**	7,417
	(164,842)	(177,412)
NET CASH USED IN FINANCING ACTIVITIES		
New borrowings raised	**1,897,309**	1,374,091
Repayment of borrowings	**(1,546,838)**	(1,188,106)
Advances from a shareholder	**—**	167,189
Repayments to a shareholder	**(6,520)**	—
Interest paid	**(398,172)**	(370,147)
	(54,221)	(16,973)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(99,232)**	(442,785)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,922)**	(2,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**218,122**	628,063
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**116,968**	183,182

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as of June 30, 2016, the Group has borrowings with carrying amounts of approximately HK$894,436,000 which are due to be repaid within one year from the end of the reporting period and the Group had other commitments contracted for but not provided in the condensed consolidated financial statements of approximately HK$1,258,113,000 as stated in note 17.

The directors of the Company closely monitor the liquidity of the Group having taken into account of:

(1) the availability of the Group's credit facilities. As at June 30, 2016, the unutilised credit facility is approximately HK$2,156,672,000; and

(2) the confirmation from a shareholder, Mr. Wong, that he would not demand repayment of the amount due to him of approximately HK$1,953,934,000 until the Group has excess cash to repay.

The directors of the Company consider that after taking into account the above measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015.

The application of the amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended June 30, 2016 (unaudited)

	Property development		Property investment			
	Shanghai HK$'000	**Chongqing HK$'000**	**Shanghai HK$'000**	**Chongqing HK$'000**	**Others HK$'000**	**Total HK$'000**
Revenue						
External sales	**143,379**	**14,563**	**590**	**63**	**4,174**	**162,769**
Segment profit (loss)	**112,732**	**(9,416)**	**1,001,652**	**7,273**	**(3,363)**	**1,108,878**
Other income, gains and losses, net						**10,768**
Net exchange loss						**(30,713)**
Unallocated expenses						**(33,964)**
Profit before tax						**1,054,969**

For the six months ended June 30, 2015 (unaudited)

	Property development		Property investment			
	Shanghai HK$'000	Chongqing HK$'000	Shanghai HK$'000	Chongqing HK$'000	Others HK$'000	Total HK$'000
Revenue						
External sales	11,515	28,452	998	—	2,022	42,987
Segment profit (loss)	8,771	(18,543)	901,983	516,108	(4,476)	1,403,843
Other income, gains and losses, net						5,907
Net exchange gain						8
Unallocated expenses						(41,870)
Profit before tax						1,367,888

Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties, changes in fair value of conversion option derivative and selling expenses without allocation of other income, gains and losses, net, net exchange (loss) gain, and administrative expenses including share-based payments and directors' emoluments. This is the measure reported to the Company's Chief Executive Officer, the Company's chief operating decision maker, for the purposes of resource allocation and performance assessment.

4. REVENUE AND OTHER INCOME AND GAINS AND LOSSES, NET

	Six months ended June 30,	
	2016	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue		
Sales of properties	**157,942**	39,967
Property rental income	**653**	998
Property management income	**4,174**	2,022
	162,769	42,987
Other income, gains and losses, net		
Gain (loss) on disposal of investment properties	**8,584**	(1,531)
Interest on bank deposits	**2,082**	7,417
Others	**102**	21
	10,768	5,907
Total revenue and other income and gains and losses, net	**173,537**	48,894

5. FINANCE COSTS

	Six months ended June 30,	
	2016	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on other borrowings	**218,198**	63,968
Interest on bank borrowings	**65,344**	211,468
Effective interest expense on 13.5% fixed-rate senior notes	**137,383**	137,383
Effective interest expense on convertible note	**34,011**	30,286
Total finance costs	**454,936**	443,105
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(454,936)**	(443,105)
	—	—

Borrowing costs capitalized during the period which arose on the specific borrowings are approximately HK$275,948,000 (six months ended June 30, 2015: HK$158,125,000). Borrowing costs capitalized during the period which arose on the general borrowing pool of approximately HK$178,988,000 (six months ended June 30, 2015: HK$284,980,000) are calculated by applying a capitalization rate of 13.10% per annum (six months ended June 30, 2015: 12.16%) to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Six months ended June 30,	
	2016	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Enterprise income tax in the PRC	**25,711**	2,239
Deferred tax:		
Current period	**252,511**	365,884
	278,222	368,123

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both periods.

Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the Provisional Regulations of the PRC on January 27, 1995, all gains arising from transfer of real estate property in the PRC effective from January 1, 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land costs, borrowings costs and all property development expenditures.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods in 2015 and 2016. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for both periods.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately HK$24,304,488,000 (December 31, 2015: HK$23,513,736,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. PROFIT FOR THE PERIOD

	Six months ended June 30, 2016 HK$'000 (unaudited)	2015 HK$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments	**771**	779
Other staff costs		
— Salaries and other benefits	**17,357**	15,742
— Contribution to retirement benefits schemes	**3,263**	3,290
Total staff costs	**21,391**	19,811
Less: Amount capitalized in investment properties under construction and properties under development for sales	**(6,885)**	(7,196)
	14,506	12,615
Share-based payments (included in administrative expenses)	**—**	2,931
Auditors' remuneration	**447**	772
Amortization of prepaid lease payments	**1,864**	1,959
Less: Amount capitalized in construction in progress under property, plant and equipment	**(1,838)**	(1,931)
	26	28
Depreciation of property, plant and equipment	**1,758**	1,931
Less: Amount capitalized in construction in progress under property, plant and equipment	**(803)**	(840)
	955	1,091
Cost of properties sold (included in cost of sales)	**43,388**	15,990
Gross rental income from investment properties	**(653)**	(998)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**22**	10
	(631)	(988)

8. EARNINGS PER SHARE

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

	Six months ended June 30, 2016 HK$'000 (unaudited)	2015 HK$'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**776,747**	999,765
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	**1,994**	77,906
— Effective interest expense on convertible note (net of tax) (Note)	**—**	—
Earnings for the purpose of diluted earnings per share	**778,741**	1,077,671

	Six months ended June 30, 2016 '000	2015 '000
Number of shares		
Number of ordinary shares in issue during the period for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	**206,612**	206,612
Number of ordinary shares for the purpose of diluted earnings per share	**2,015,689**	2,015,689

Note: Since the effective interest expense on convertible note had been capitalized in properties under construction and properties under development for sales, there would be no effect on the earnings for the purpose of diluted earnings per share for both periods.

The computation of diluted earnings per share for the period ended June 30, 2015 did not assume the exercise of the Company's share options before they were lapsed at July 3, 2015 because the exercise price of these options was higher than the average market price of the Company's shares for the period ended June 30, 2015.

9. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors of the Company do not recommend the payment of an interim dividend.

10. INVESTMENT PROPERTIES

	June 30, 2016 HK'000 (unaudited)	December 31, 2015 HK'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note (a))	**3,142,726**	3,078,486
Leasehold land under and held for construction of properties for rental purpose and investment properties under construction	**50,938,290**	51,241,869
Sub-total	**54,081,016**	54,320,355
COST		
Investment properties under construction (Note (b))	**5,201,946**	4,986,331
Total	**59,282,962**	59,306,686

Notes:

(a) As at June 30, 2016, included in the Group's completed properties held for rental purpose balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately HK$2,486,220,000 (December 31, 2015: HK$2,514,982,000); of which 100% (December 31, 2015: 100%) is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of the northern portion of Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their targets for both Phase 1 and Phase 2 North Portion of Shanghai Concord City. The construction of Phase 2 North Portion is anticipated to be completed in the fourth quarter of 2016 and the Group is currently negotiating with potential tenants.

(b) The amount represents the construction costs for the building portion of certain investment properties under construction. Since the fair value of the building portion of the investment properties under construction cannot be measured reliably at the end of reporting period, the amounts are carried at cost until either the fair value becomes reliably measurable, the stage in which more than 50% of construction completed, or construction is completed, whichever is earlier. The land portion is measured at fair value and grouped under leasehold land under and held for construction of properties for rental purpose and investment properties under construction.

The fair values of certain of the Group's investment properties at June 30, 2016 and December 31, 2015 were arrived at on the basis of a valuation carried out on those dates by Colliers International (Hong Kong) Limited ("Colliers") in respect of the properties situated in Shanghai and Chongqing, the PRC. Colliers is an independent qualified professional valuer not connected with the Group and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

10. INVESTMENT PROPERTIES — continued

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2016 determined by Colliers are approximately HK$43,651,462,000 (December 31, 2015: HK$43,657,044,000) and HK$10,429,554,000 (December 31, 2015: HK$10,663,311,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For leasehold land under and held for construction of properties for rental purposes and investment properties under construction, the valuations have been arrived at using the residual approach by making reference to recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected developed profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

For investment properties located in Shanghai

For the six months ended June 30, 2016, in determining the fair values of the investment properties located in Shanghai, Colliers has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Gross capitalization rate is ranging from 1.50% to 6.00% (December 31, 2015: ranging from 2.00% to 6.00%)

ii. Rental rate per month per square metre is ranging from HK$204 to HK$2,023 (December 31, 2015: ranging from HK$205 to HK$1,680)

iii. Occupancy rate for the investment properties is ranging from 40% to 98% (December 31, 2015: ranging from 40% to 98%)

iv. Expected developer profit is ranging from 10% to 20% (December 31, 2015: ranging from 10% to 20%)

v. Discount rate of retail and office portion is ranging from 7.94% to 9.37% (December 31, 2015: ranging from 7.94% to 9.37%) per annum and 9.12% (December 31, 2015: 9.12%) per annum respectively

vi. Rate of finance cost is ranging from 5.00% to 6.00% (December 31, 2015: ranging from 5.00% to 6.00%)

vii. Annual growth rate of rental income is ranging from 3.00% to 6.00% (December 31, 2015: ranging from 3.00% to 6.00%)

viii. Expected commencement date of operation of north portion of phase 2 of Shanghai Concord City is end of December 2016. Estimated rental income is based on rental information of similar grade of retail properties in Shanghai

10. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing

For the six months ended June 30, 2016, in determining the fair values of the investment properties located in Chongqing, Colliers has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Gross capitalization rate is ranging from 4.00% to 7.50% (December 31, 2015: ranging from 4.00% to 7.50%)

ii. Rental rate per month per square metre is ranging from HK$96 to HK$950 (December 31, 2015: ranging from HK$97 to HK$968)

iii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2015: ranging from 60% to 85%)

iv. Expected developer profit is ranging from 25% to 30% (December 31, 2015: ranging from 25% to 30%)

v. Discount rate of retail and office portion is ranging from 10.08% to 10.26% (December 31, 2015: ranging from 10.07% to 10.26%) per annum and 5.00% (December 31, 2015: 5.00%) respectively

vi. Rate of finance cost is 5.00% (December 31, 2015: 5.00%)

vii. Annual growth rate of rental income is ranging from 3.00% to 5.50% (December 31, 2015: ranging from 3.00% to 5.50%)

All the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model (except for those stated at cost with details set out in note (b)) and are classified and accounted for as investment properties.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Consideration in respect of completed properties sold is paid in accordance with the terms of the related sales and purchase agreements, normally within 90 days from the agreement date.

Consideration in respect of properties sold under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

	June 30, 2016	December 31, 2015
	HK$'000	HK$'000
	(unaudited)	(audited)
Trade receivables	**2,859**	2,925
Prepayment of business taxes and other PRC taxes	**20,733**	20,966
Other receivables, deposits and prepayments	**134,351**	133,912
	157,943	157,803

As at June 30, 2016 and December 31, 2015, included in the Group's trade receivables are past due for over 1 year for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

12. BORROWINGS

	June 30, 2016	December 31, 2015
	HK$'000	HK$'000
	(unaudited)	(audited)
Bank borrowings, secured	**1,259,785**	1,937,132
Other borrowings, secured	**4,288,349**	3,369,112
	5,548,134	5,306,244

12. BORROWINGS — continued

Bank borrowings

As at June 30, 2016, entire balance of bank borrowings represents variable-rate bank borrowings (December 31, 2015: variable-rate bank borrowings: HK$1,285,023,000; fixed-rate bank borrowing: HK$652,109,000). The interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the People's Bank of China, Hong Kong Interbank Offered Rates or London Interbank Offered Rates plus a premium.

During the interim periods, the range of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Fixed-rate bank borrowing	**N/A**	17%
Variable-rate bank borrowings	**2.16% to 5.39%**	2.02% to 11.16%

Other borrowings

As at June 30, 2016 and December 31, 2015, entire balance of other borrowings represents fixed-rate borrowings. Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately HK$362,665,000 (December 31, 2015: HK$746,943,000) are shown under current liabilities. At June 30, 2016, the balances of approximately HK$3,925,684,000 (December 31, 2015: HK$2,622,169,000) are repayable more than one year, but not exceeding five years and accordingly, shown under non-current liabilities.

The weighted average rate of the other borrowings is 11.29% (December 31, 2015: 11.42%) per annum.

The bank and other borrowings outstanding as of June 30, 2016 were secured by the following:

- property, plant and equipment with a net carrying value of approximately HK$371,347,000 (December 31, 2015: HK$275,517,000);
- investment properties with a value of approximately HK$53,623,887,000 (December 31, 2015: HK$49,213,032,000);
- prepaid lease payments with a carrying value of approximately HK$2,367,000 (December 31, 2015: HK$2,535,000);
- properties under development for sales with a carrying value of approximately HK$1,928,104,000 (December 31, 2015: HK$1,802,287,000);
- properties held for sales with a carrying value of approximately HK$240,265,000 (December 31, 2015: HK$265,807,000); and
- pledged bank deposits of approximately HK$276,110,000 (December 31, 2015: HK$155,578,000).

13. 13.5% FIXED-RATE SENIOR NOTES

On October 8, 2013 and October 22, 2013, the Company issued approximately US$150 million (approximately HK$1,170,000,000) and US$100 million (approximately HK$780,000,000) respectively in aggregate principal amount of the fixed-rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at a fixed-rate of 13.50% per annum. The interest charged for the period is calculated by applying an effective interest rate of approximately 13.67% per annum. Interest on the notes is payable on April 16 and October 16 of each year. The notes will mature on October 16, 2018. The notes are guaranteed by certain of the Company's subsidiaries.

Details of the fixed-rate senior notes are set out in the Company's annual report for the year ended December 31, 2015 dated March 30, 2016.

At June 30, 2016, an amount of HK$55,575,000 (December 31, 2015: HK$55,575,000), which represents interest payable within 12 months from the end of reporting period, is included in the other payables and accruals.

The directors of the Company consider that the fair values of the redemption options at the date of issuance of the notes, at December 31, 2015 and at June 30, 2016 are insignificant.

14. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

On January 27, 2012, the Company and Hillwealth Holdings Limited (the "Subscriber"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong, entered into a conditional subscription agreement pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for a convertible note of HK$500,000,000 in cash. The convertible note is interest bearing at 5% per annum and matures on the fourth anniversary of the issue date. The conversion price of the convertible note is HK$2.42 per share. Interest on the convertible note is payable annually.

On February 21, 2012, the Company and the Subscriber entered into a supplemental agreement to extend the maturity date and the period for conversion of the convertible note to the sixth anniversary of the issue date. Both the Company and the Subscriber have no early redemption rights on the convertible note. The Company shall repay the principal amount outstanding under the convertible note to the Subscriber together with all interest accrued on the sixth anniversary of the date of issue of the convertible note.

The issuance of the convertible note has been approved at the extraordinary general meeting of the Company held on March 16, 2012. On March 19, 2012, the Listing Committee of the Stock Exchange conditionally granted the listing of and permission to deal with the conversion shares, subject to (i) approval by the Independent Shareholders of the issue of the convertible note under Rule 13.36 of the Listing Rules and (ii) fulfillment of all other conditions of the subscription agreement. In accordance with the subscription agreement, all of the conditions precedent had been fulfilled on August 14, 2012 and the issue of the convertible note had been agreed between the Company and the Subscriber to fall on August 14, 2012 with settlement against funds previously advanced by Mr. Wong to the Company.

14. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — continued

The convertible note is denominated in Hong Kong dollars ("HK$") and contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 18.838% per annum. The conversion option derivative is measured at fair value with changes in fair value recognized in profit or loss.

The fair value of conversion option derivative was calculated using the binomial option pricing model by an independent valuer, Asset Appraisal Limited. The inputs into the model are as follows:

	June 30, 2016	December 31, 2015
Spot price *(HK$)*	**1.72**	1.6
Exercise price *(HK$)*	**2.42**	2.42
Risk-free interest rate	**0.49%**	0.59%
Discount rate	**19.90%**	18.67%
Volatility	**39.067%**	38.965%
Dividend yield	**0%**	0%

Note: Pursuant to the subscription agreement and the supplemental agreement, conversion option may be exercised at any time after full repayment of the loan principal and all outstanding accrued interest under the facility agreement entered into with China Development Bank Corporation, Hong Kong Branch or the date falling 36 months from the first date a loan was made under the facility agreement (whichever is earlier). The Subscriber will have the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the sixth anniversary of the date of inception of the convertible note. As settlement was made before December 31, 2015, such option is exercisable at end of both of the reporting period.

Expected volatility of the convertible note and conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binominal option pricing model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

14. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — continued

The movement of the different components of the convertible note for the period is set out as below:

	Liability component HK$'000	**Conversion option derivative** HK$'000	**Total** HK$'000
As at January 1, 2015	333,910	97,834	431,744
Interest charged	62,796	—	62,796
Interest paid	(25,000)	—	(25,000)
Gain arising on changes in fair value	—	(27,080)	(27,080)
As at December 31, 2015	371,706	70,754	442,460
Interest charged (note 5)	34,011	—	34,011
Loss arising on changes in fair value	—	1,994	1,994
As at June 30, 2016	405,717	72,748	478,465

	June 30, 2016 **HK$'000** **(unaudited)**	December 31, 2015 HK$'000 (audited)
Analysis for reporting purpose as:		
Current (included in other payables and accruals)	**22,055**	9,589
Non-current	**456,410**	432,871
	478,465	442,460

15. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At January 1, 2015, June 30, 2015, December 31, 2015, January 1, 2016 and June 30, 2016	5,000,000	500,000
Issued and fully paid:		
At January 1, 2015, June 30, 2015, December 31, 2015, January 1, 2016 and June 30, 2016	1,809,077	180,907

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the Company's residual assets.

None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the period.

16. CONTINGENT LIABILITIES

At the end of the reporting period, the contingent liabilities of the Group were as follows:

Guarantee

	June 30, 2016 HK$'000 (unaudited)	December 31, 2015 HK$'000 (audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**895,583**	949,885

Note: The guarantees were given to banks with respect to mortgage loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers and completion of the registration of the mortgage with the relevant mortgage registration authorities or settlement of the outstanding mortgage loans. In the opinion of the directors, the fair value of the financial guarantee contracts is not significant. Deposits received on sales of properties prior to the date of revenue recognition are classified as current liabilities in the condensed consolidated statement of financial position.

16. CONTINGENT LIABILITIES — continued

Legal disputes

As at June 30, 2016, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales, properties held for sale and property, plant and equipment of approximately HK$296,789,000 and the withdrawal of bank deposits in an aggregate amount of approximately HK$6,632,000 respectively as at June 30, 2016 (December 31, 2015: HK$60,455,000 and HK$3,049,000 respectively). In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards. Pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or is in the process of making counter-claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The net financial effect of both claims and counter-claims is considered insignificant.

Based on the advice from the independent legal advisors and internal legal counsel of the Group, those outstanding legal claims are still in preliminary stage and hence the final outcome is unable to be determined at this stage. The legal claims amounted to approximately HK$27,099,000 (December 31, 2015: HK$34,987,000) in aggregate. Accordingly, no provision is required to be made in the condensed consolidated financial statements. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

17. OTHER COMMITMENTS

	June 30, 2016	December 31, 2015
	HK$'000	HK$'000
	(unaudited)	(audited)
Construction commitment contracted for but not provided	**1,258,113**	1,219,614

18. OPERATING LEASE COMMITMENTS

As lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	June 30, 2016 HK$'000 (unaudited)	December 31, 2015 HK$'000 (audited)
Within one year	**663**	551
In the second to fifth year inclusive	**2,876**	2,868
After the fifth year	**3,502**	4,000
	7,041	7,419

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30,	
	2016 HK$'000 (unaudited)	2015 HK$'000 (unaudited)
Premises	**2,093**	1,355

At the end of the reporting period, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	June 30, 2016 HK$'000 (unaudited)	December 31, 2015 HK$'000 (audited)
Within one year	**4,040**	3,775
In the second to fifth year inclusive	**282**	2,054
	4,322	5,829

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three (December 31, 2015: three) years.

19. RELATED PARTY TRANSACTIONS

(i) Amount due to a shareholder

Amount due to a shareholder, Mr. Wong, is non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) Other transactions

During the six months ended June 30, 2016, the Group had the following transactions with Pacific Concord Holding Limited ("PCH"), a company in which Mr. Wong has controlling interests, and its subsidiary as follows:

	Six months ended June 30,	
Nature of transactions	**2016**	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Office premises expenses (Note)	**20**	17

Note: On July 22, 2011, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of PCH of which the ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2011 to July 31, 2014 and new agreement is entered which is effective from August 1, 2014 to July 31, 2017.

On the same date, a sharing agreement was entered into between a subsidiary of PCH and the Group which both parties agreed that the principal office will be divided into two equal halves and each party will be entitled to occupy, use and possess half of the principal office. The rental and the electricity fee, fixed line telephone charge and other charges will be shared equally by the parties.

19. RELATED PARTY TRANSACTIONS — continued

(iii) Compensation of key management personnel

The directors of the Company considered that the directors are the key management personnel of the Group. The remuneration of key management personnel of the Group during the period was as follows:

	Six months ended June 30,	
	2016	2015
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term benefits	**771**	779

The remuneration of directors is determined by the remuneration committee with reference to the involvement and the business performance of the directors of the Company.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Certain Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis — continued

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at June 30, 2016	Fair value as at December 31, 2015	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Conversion option derivative	Liability: HK$72,748,000	Liability: HK$70,754,000	Level 3	Binominal option pricing model The fair value is estimated based on risk-free rate, discount rate and share price (from observable market date), volatility of the share price of the comparable companies and dividend yield and exercise price	Volatility of the share price of the comparable companies, determined by reference to the historical share price of the comparable companies.	The higher the volatility of the share price of the comparable companies, the higher the fair value of the conversion option derivative

There is no transfer between different levels of the fair value hierarchy for the period ended June 30, 2016 and 2015.

Reconciliation of Level 3 fair value measurements of conversion option derivative

	HK$'000
At January 1, 2015	97,834
Fair value gain recognized in profit or loss	(27,080)
At January 1, 2016	70,754
Fair value loss recognized in profit or loss (Note)	1,994
At June 30, 2016	72,748

Note: The loss for the period of HK$1,994,000 relates to conversion option derivative held at the end of the current reporting period.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. The accounting officer reports the findings of the valuation prepared by the qualified external valuers to the board of directors of the Company every half year and explain the cause of fluctuations in the fair value of the financial instruments. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Fair value of financial assets and liabilities that are not measured on a recurring basis

Except for the fixed-rate senior notes, the directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values. At June, 30 2016, the fair values of fixed-rate senior notes (categorized within Level 2 hierarchy) of approximately HK$2,035,356,000 (December 31, 2015: HK$1,994,082,000) have been determined using discounted cash flows at an appropriate debt yield which being the sum of base interest rate, representing the U.S. risk-free rate of 0.73% (December 31, 2015: 1.34%), and the spread of 10.55% (December 31, 2015: 11.08%) derived from the Hull-White One-Factor Model.