



China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Interim Report 2017

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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 (retired on June 29, 2017)

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 (resigned on June 29, 2017)

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

Agricultural Bank of China
Bank of China
China Minsheng Bank
Postal Savings Bank of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

www.cpg-group.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

A Greek philosopher once said: “Men are not troubled by the problem itself, but by their views on the problem.” So, in this era of global complexity, despite the games between old and new politics, economy and science and technology, how to continue the liberation of productivity is the bigger picture. Since 2008, various talents have been fighting with each other in the above areas, the real long-term interest rate of the world economy is too low, and there is a great gap between the Wall Street economy and the real economy, so the situation will not last for long, which means that, once the interest rate rebounds, a favorable treatment of lowering over 3.5% in the interest rate may turn out to be possible. Another view is that we will be faced with the stagnation period caused by sharp cutoff of capital investment and productivity. Of course, despite the delay on the development progress of the Group’s certain projects, the Group will not miss the existing opportunities for property transactions and for arbitrage eventually! We will not follow the “The Greed of Man” to gamble, and the above is the view of the Group on the market in the short and medium term as well as the thing we are doing right now. The lending rate of the Group is still very low, but it will not affect our initiative and innovation.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China’s GDP in 2017 H1 was recorded at RMB38,149.0 billion, representing a 11.4% year-on-year growth.

The overall residential market in China was dynamic in 2017 H1. According to the National Statistics Bureau, the total transaction volume of commodity housing in China was registered at 746.6 million square metres, representing a 16.1% year-on-year increment. The tightening measures implemented in last year, including the increase in land supply and restriction on sale transactions, persisted, which successfully inhibited the year-on-year growth rate in 15 top-tier cities.

China’s retail sales expanded to RMB17,236.9 billion in 2017 H1, representing a growth of 10.4% year-on-year, according to the National Statistics Bureau. The e-commerce market had been developing rapidly over the past years. In 2017 H1, the national online retail sales of goods & services were RMB3,107.3 billion, increased by 33.4% year-on-year. Of which, the online retail sale of commodities was RMB2,374.7 billion, increased by 28.6%, accounting for 13.8% of the total retail sales of consumer goods. Of the online retail sales of physical goods, food, clothing and daily necessities went up by 25.1%, 20.8% and 31.8% respectively. First-tier cities remained attractive to retailers due to large populations, high consumption expenditure and sophistication of both consumers and operators. Rental level of prime retail areas of first-tier cities is expected to remain buoyant in the second half of 2017. Since shopper demand continued to shift to goods and services with higher quality and variety, landlords are likely to look for non-traditional tenants to differentiate their malls.

China’s office property market had continued to expand in 2017 H1 in most top-tier cities, which was driven by the strong office leasing activities. With the high pre-leased ratios in new developments, the net absorption of office spaces increased by over 60% year-on-year. A vast amount of new office supply was expected to enter into market in 2017 H1 in first-tier cities, including Beijing, Shanghai and Shenzhen. Having said that, the robust leasing demand allowed the vacancy rate to be kept at a relatively steady level. As a result, a healthy growth on average office rents was recorded in first-tier cities.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Shanghai Property Market

Shanghai has maintained a steady economic growth. As of 2017 H1, Shanghai's GDP grew by 6.9% year-on-year to RMB1,390.9 billion.

Shanghai's residential property market was positive in 2017 H1. The supply in 2017 H1 had dropped by about 50% year-on-year, while the demand remained very strong. Although the government intervention established in 2016, which acted in the form of stricter policies towards down payments and higher threshold on non-local buyers, had affected the purchasing incentive, the transaction volume was still higher than the supply amount for the past 4 quarters. Due to the limited supply and continuously strong demand, notwithstanding the increase in mortgage rate, average residential sale prices increase to a level around RMB48,000 per square metre.

The retail property market of Shanghai was active in 2017 H1, supported by the increasing retail sales of consumer goods, which grew by 8% year-on-year to RMB567.0 billion. Three new retail projects, comprising 326,990 square metres, were opened in 2017 Q2. The supply led to an increase in stock in non-prime areas by 8.5% quarter-on-quarter, which occupied 74% of the total stock. Despite the amount of new supply, the city's overall vacancy rate only increased by 1.1% quarter-on-quarter to 13.1% due to the robust leasing market, particularly in the F&B sector. The ongoing renovations in existing projects had continued to bring in new brands, and vacant area in projects launched in the previous quarter had continued to be absorbed.

Shanghai's office property market was dynamic in 2017 H1. The city's strong tertiary industry, which grew by 7.0% year-on-year, according to the Shanghai Statistics Bureau, had been supported by the demand from a number of industries. The Shanghai CBD Grade A office market received six new office buildings totalling 333,000 square metres of office GFA in 2017 Q2 alone, the largest quarterly addition since 2009, situated in various sites in downtown Shanghai. On the other hand, a total of 261,000 square metres net absorption was recorded in Shanghai's CBDs in Q2, the strongest quarterly absorption level in the past decade, supported by the strong leasing demand from various sources, including finance, property, IT, manufacturing, consulting, law, and other sectors. As a result, office market had performed steadily in 2017 H1.

Overview of the Chongqing Property Market

Chongqing's GDP was recorded at a growth of 10.5% year-on-year to RMB914.3 billion in 2017 H1.

The residential market of Chongqing had continued to grow in a steady pace, due to the series of monetary policies implemented by the government aiming at boosting the economy and real estate market. Compared to other first- and second-tier cities in China, there was not much government intervention in the residential sale market, which attracted non-local buyers to invest in Chongqing. The transaction volume had recorded at about 28.6 million square metres in 2017 H1, which amounting to approximately 20.1% year-on-year increment. Owing to the outpacing of demand over supply, the average residential price kept increasing for consecutive 6 quarters.

MANAGEMENT DISCUSSION AND ANALYSIS

The total retail sales of Chongqing grew by 11.7% to RMB391.4 billion in 2017 H1, highlighting a continuous demand of retail spaces in Chongqing. A new shopping complex occupying 93,300 square metres GFA, namely Longfor Hometown Paradise Walk, was completed in 2017 Q2. For 2017 H2, International Finance Square and Shin Kong Place will be the noticeable pipeline supply. Despite the increase in retail supply, the vacancy rate in prime area remained stable at a level of about 10%, supported by the new leasing activities in landmark projects. Landlords endeavored to reposition their shopping arcades by frequently changing the tenant mix to suit the diversified appetite of shoppers as they put more emphasis on the quality of shopping experience, which led to the introduction of more cultural and lifestyle related retailers. Meanwhile, a strong demand of luxury goods was still observed from the new letting of high-end fashion brands.

A new Grade A office building, namely Chongqing Finance Fortune Centre, was completed in 2017 H1, alongside other new office supply, had been providing around 120,000 square metres to the market. Nonetheless, the current vacancy rate continued to decline due to sustainable absorption. With the announcement of positioning Chongqing as the site of the new China (Chongqing) Pilot Free Trade Zone, the city will be transformed into a new financial hub, in turn bringing strong demand in the office market, particularly backed up by the finance, TMT and professional services occupiers.

Outlook of the Mainland Property Market

It is anticipated that the residential market in China will grow continuously despite the government's tightening measures. Urbanization will drive up the demand and the absorption of inventory by the market with a stable growth of selling prices will be the main target of developers. Population is expected to increase since the relaxation of one-child policy, which will eventually boost the demand for residential housings.

With the steady growth in supply and strong demand from domestic and international retailers for both new stores and expansion, the retail rental level in prime areas in first-tier cities are expected to remain stable. Landlords stay competitive by renovating and repositioning their malls and changing the brand-and-tenant mix to attract customers. Shoppers in the new generation focus on the overall shopping experience. Retailers with trade of F&B, culture and lifestyle can be benefited from the current shift of shoppers' taste, which is foreseen that such trades will expand rapidly in response. All in all, the retail landscape in China is anticipated to be further developed with positive actions in place.

Despite the vast Grade A office supply in the pipeline in prime areas, the office property market in China is expected to remain positive due to the robust leasing demand from continuous growth in occupiers from the tertiary sector, such as finance, professional services, IT & high-tech industries. Co-working space, favoured by small and medium-sized enterprises and start-ups, remained to be the hot topic in the office market. It leads to the demand of flexible and shared working space, benefiting the operators to be one of the major participants in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's profit attributable to equity holders for the six months ended June 30, 2017 amounted to RMB232 million (six months ended June 30, 2016: RMB656 million), decreased by 64.6% when compared to the same period of 2016. Basic earnings per share were RMB0.13 (six months ended June 30, 2016: RMB0.36).

As at June 30, 2017, the total assets decreased to RMB58,478 million from RMB58,479 million as at December 31, 2016. Net assets, the equivalent of shareholders' funds, increased to RMB37,137 million (December 31, 2016: RMB36,905 million). In terms of value per share, net assets value per share is RMB20.5 at the end of the reporting period, as compared to RMB20.4 as at December 31, 2016. As the Group continues its investment of premium property developments in PRC with attendant appreciation in fair value, there was a RMB133 million fair value gain from the current portfolio. However, the approximate 3% appreciation of RMB to HK\$ has resulted in the recognition of a RMB68 million net exchange translation gain reported in the six months ended June 30, 2017.

The Group's revenue of RMB104 million (six months ended June 30, 2016: RMB137 million) decreased by 24% when compared with the corresponding period last year, and was mainly due to the decrease in revenue from sales of properties.

The revenue from sales of properties amounted to RMB99 million (six months ended June 30, 2016: RMB133 million), decreased by 26% as compared with the corresponding period last year. The Group sold properties with total gross floor area ("GFA") of approximately 35,423 sq. ft. in the six months ended June 30, 2017 as compared to 40,595 sq. ft. in the corresponding period last year.

Gross profit margin for sales of properties was 75% (six months ended June 30, 2016: 73%), which remained stable when compared with the corresponding period last year.

Income from property leasing was RMB0.6 million (six months ended June 30, 2016: RMB0.6 million). Property management income was RMB4 million (six months ended June 30, 2016: RMB4 million).

During the period under review, the Group generated income of RMB90,134 million, RMB7,544 million and RMB1,299 million from sales of residential properties of Shanghai Concord City, residential properties and car parking spaces of Chongqing Manhattan City Phase I, residential properties and car parking spaces of Chongqing Manhattan City Phase II respectively.

Deposits received on sales of properties increased to RMB497 million as at June 30, 2017 from RMB403 million as at December 31, 2016. This was primarily due to the increase in deposits received on sales of Shanghai Concord City Phase I and the pre-sale of residential properties of Chongqing Manhattan City Phase III during the period under review.

Other income, gains and losses, net were RMB7 million (six months ended June 30, 2016: RMB9 million).

During the period under review, selling expenses were RMB9 million (six months ended June 30, 2016: RMB9 million).

Administrative expenses during the six months ended June 30, 2017 were RMB28 million (six months ended June 30, 2016: RMB29 million) which decreased by 3%.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest of convertible note and the fixed-rate senior notes. Since all finance costs of approximately RMB392 million (six months ended June 30, 2016: RMB384 million) were wholly capitalized on various projects, no finance costs were charged to the profit or loss during the period under review (six months ended June 30, 2016: nil).

The changes in fair value of investment properties were RMB133 million (six months ended June 30, 2016: RMB853 million), a decrease of 84% when compared to the same period last year. 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 first half of 2017 is still appreciating. The changes in fair value of investment properties in Shanghai experienced an increase of RMB80 million (six months ended June 30, 2016: RMB846 million) which was mainly contributed from valuation appreciation of the project of Shanghai Concord City. The changes in fair value of investment properties in Chongqing experienced an increase of RMB53 million (six months ended June 30, 2016: RMB7 million) which was mainly contributed from the valuation appreciation of the projects of Chongqing Concord City and Chongqing International Commerce Centre.

Income tax expense was RMB49 million (six months ended June 30, 2016: RMB235 million), a decrease of 79%. The decrease in income tax expense was due to the drop in the amount of increase in fair value of investment properties for the period under review in comparison to the same period last year. The Group's effective income tax rate was 17% (six months ended June 30, 2016: 26%). The decrease in effective income tax rate was mainly attributable to the increase in net exchange gain and fair value of conversion option derivative which were not taxable income.

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 repaid net external borrowings totaling of approximately RMB467 million (six months ended June 30, 2016: raised net external borrowing totaling of RMB296 million); on the other hand, the Group also received advance from a shareholder amounted to RMB170 million (six months ended June 30, 2016: repayment to a shareholder of RMB6 million) during the period.

At the end of the reporting period, the Group's senior notes, bank and other borrowings, amount due to a shareholder and convertible note amounted to RMB1,733 million (December 31, 2016: RMB1,783 million), RMB4,783 million (December 31, 2016: RMB5,255 million), RMB2,083 million (December 31, 2016: RMB1,913 million) and RMB396 million (December 31, 2016: RMB374 million) respectively, and the Group's total borrowings were RMB8,995 million (December 31, 2016: RMB9,325 million), a decrease of RMB330 million when compared to December 31, 2016. RMB3,802 million (December 31, 2016: RMB3,367 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, 2017 was 23.4% (December 31, 2016: 23.2%), determined as proportion of the Group's net borrowings (after deducting bank balances and cash and pledged bank deposits) to the shareholders' funds.

MANAGEMENT DISCUSSION AND ANALYSIS

With bank balances and cash in hand, banking facilities available and those financing plans, 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

At the end of the reporting period, approximately 75% (December 31, 2016: 75%) of the Group's borrowings were in RMB with the remaining balance in US\$ and HK\$. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in RMB and HK\$.

The bank borrowings are principally on a floating-rate basis while the other borrowings and senior notes are on a fixed-rate basis.

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 borrowings covenants.

CHARGE ON ASSETS

As at June 30, 2017, the Group pledged assets with an aggregate carrying value of RMB47,707 million (December 31, 2016: RMB44,828 million) to secure loan facilities utilized.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at June 30, 2017, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of RMB514 million (December 31, 2016: RMB483 million). During the six months ended June 30, 2017, there was no default case.

Legal disputes

As at June 30, 2017, 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 and properties held for sale in an aggregate amount of approximately RMB70 million (December 31, 2016: RMB62 million) and the withdrawal of bank deposits of approximately RMB6 million (December 31, 2016: RMB6 million) as at June 30, 2017. 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 management has sought advices from the independent legal advisors or internal legal counsel, as at June 30, 2017, the Group has provided the construction cost liabilities amounting to RMB68 million (December 31, 2016: RMB69 million) in relation to the above mentioned construction contracts under dispute. The net financial effect of both claims and counter-claims is considered insignificant.

For those outstanding legal claims are still in preliminary stage, according to the advice from the independent legal advisors and internal legal counsel of the Group, the final outcome is unable to be determined at this stage amounted to approximately RMB62 million (December 31, 2016: RMB55 million) in aggregate. Accordingly no further 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, 2017, the Group had approximately 355 employees (June 30, 2016: 371 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, 2017, 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, 2017, 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.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

(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, 2017, 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, 2017, 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, 2017, 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.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

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, 2017 and as at the date of this report.

SHARE OPTION SCHEME

The share option scheme which was adopted by the Company on February 5, 2007 had a term of 10 years and had expired on February 5, 2017, and all options which were granted under that scheme had also lapsed.

On June 29, 2017, the Company by ordinary resolution approved the adoption of a new share option scheme with terms in line with the provisions of Chapter 17 of the Listing Rules. No options have yet been granted under such new share option scheme.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE CODE COMPLIANCE

Throughout the six months ended June 30, 2017, the Company had complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standard of dealings as set out in the Model Code and the Company’s Code of Conduct during the six months ended June 30, 2017.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

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 Corporate Governance Code. The Audit Committee comprises four Independent Non-executive Directors, namely Mr. Warren Talbot Beckwith (Chairman of the Audit Committee), Mr. Luk Koon Hoo, Mr. Garry Alides Willinge and Mr. Cheng Chaun Kwan, Michael. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, risk management and internal control systems, 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, 2017.

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 would like to take this opportunity to express sincere gratitude to all shareholders for their continued support and to thank all staff members of the Group for their dedication and contribution to the Group.

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

Hong Kong, August 30, 2017



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, 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and 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 30, 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2017

		Six months ended June 30,	
		2017	2016
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
			(restated)
Revenue	3 & 4	103,983	137,475
Cost of sales		(28,987)	(43,029)
Gross profit		74,996	94,446
Other income, gains and losses, net	4	7,317	9,095
Net exchange gain (loss)		68,465	(25,940)
Selling expenses		(8,952)	(9,287)
Administrative expenses		(28,047)	(28,686)
Finance costs	5	—	—
Profit from operation before changes in fair value of investment properties and conversion option derivative		113,779	39,628
Changes in fair value of investment properties		133,282	853,083
Changes in fair value of conversion option derivative		33,866	(1,684)
Profit before tax		280,927	891,027
Income tax expense	6	(49,020)	(234,986)
Profit and total comprehensive income for the period attributable to owners of the Company	7	231,907	656,041
Earnings per share			
Basic (RMB)	8	0.13	0.36
Diluted (RMB)	8	0.10	0.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2017

	NOTES	June 30, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment		368,887	350,030
Prepaid lease payments		94,317	95,892
Investment properties	10	51,843,840	51,458,045
		52,307,044	51,903,967
Current Assets			
Properties under development for sales		5,226,791	5,155,483
Properties held for sales		452,866	467,793
Other receivables, deposits and prepayments	11	201,162	199,256
Pledged bank deposits		103,077	278,517
Bank balances and cash		187,531	474,306
		6,171,427	6,575,355
Current Liabilities			
Deposits received for sales of properties		497,301	402,739
Construction costs accruals		214,380	207,928
Other payables and accruals		165,842	180,883
Amount due to a shareholder	19(i)	2,082,923	1,912,761
Tax payable		692,581	680,241
Borrowings — due within one year	12	1,662,677	1,395,171
		5,315,704	4,779,723
Net Current Assets		855,723	1,795,632
Total Assets less Current Liabilities		53,162,767	53,699,599
Non-current Liabilities			
Borrowings — due after one year	12	3,120,000	3,860,000
13.5% fixed-rate senior notes, non-current portion	13	1,684,195	1,732,822
Convertible note, non-current portion	14	387,567	365,789
Conversion option derivative	14	24,086	59,297
Deferred tax liabilities		10,810,093	10,776,772
		16,025,941	16,794,680
Net Assets		37,136,826	36,904,919
Capital and Reserves			
Share capital	15	170,073	170,073
Share premium and reserves		36,966,753	36,734,846
Total Equity		37,136,826	36,904,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2017

Attributable to owners of the Company									
	Share capital	Share premium	Revaluation reserve	Special reserve	Other reserve	General reserve	Shareholder contribution reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000 (Note d)	RMB'000	RMB'000
At January 1, 2016 (audited) (restated) (Note e)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	31,166,310	36,165,335
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	656,041	656,041
At June 30, 2016 (unaudited) (restated)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	31,822,351	36,821,376
At January 1, 2017 (audited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	31,905,894	36,904,919
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	231,907	231,907
At June 30, 2017 (unaudited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,137,801	37,136,826

Notes:

- 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.
- 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.
- 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.
- Shareholder contribution reserve represents the deemed contribution arising from the loan from a shareholder, Mr. Wong.
- The opening balance has been translated from Hong Kong dollars ("HK\$") to Renminbi ("RMB") as the directors of the Company determined to change the presentation currency of the consolidated financial statements starting from the year ended December 31, 2016. Details as disclosed in note 1.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2017

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
NET CASH FROM OPERATING ACTIVITIES	169,943	102,433
NET CASH FROM (USED IN) INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,051)	(2,584)
Additions to investment properties	(27,010)	(66,728)
Proceeds received from disposal of investment properties	47,272	34,840
Withdrawal of pledged bank deposits	175,440	79,347
Placement of pledged bank deposits	—	(185,858)
Interest received	2,789	1,758
	195,440	(139,225)
NET CASH USED IN FINANCING ACTIVITIES		
New borrowings raised	6,138	1,602,467
Repayment of borrowings	(473,106)	(1,306,459)
Advance from (repayments to) a shareholder	170,162	(5,507)
Interest paid	(355,352)	(336,296)
	(652,158)	(45,795)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(286,775)	(82,587)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	474,306	183,004
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	187,531	100,417

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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, 2017, the Group has borrowings, with carrying amounts of RMB1,662,677,000, 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 RMB1,478,430,000 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, 2017, the unutilized credit facility is approximately RMB1,000,000,000; In addition, the Group is negotiating with certain financial institutions and banks to obtain new long term borrowings of not less than HK\$2,000,000,000 (equivalent to approximately RMB1,741,000,000);
- (2) the confirmation from a shareholder, Mr. Wong, that he would not demand repayment of the amount due to him of approximately RMB2,082,923,000 until the Group has excess cash to repay; and
- (3) the estimated cash flows of the Group for the next twelve months from the end of the reporting period, in particular the consideration of the upcoming plan for sales of its properties held for sales and pre-sale of properties under development for sales.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

1. BASIS OF PREPARATION — continued

Change in presentation currency of the condensed consolidated financial statements

As the presentation currency of the Company and the Group has changed from Hong Kong Dollars (“HK\$”) to Renminbi (“RMB”) starting from the year ended December 31, 2016 with details set out in the Company’s annual report for the year ended December 31, 2016 dated March 30, 2017, therefore, the comparative figures in these condensed consolidated financial statements have also been re-presented in RMB accordingly.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2016.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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, 2017 (unaudited)

	Property development		Property investment		Others	Total
	Shanghai RMB'000	Chongqing RMB'000	Shanghai RMB'000	Chongqing RMB'000		
Revenue						
External sales	90,134	8,843	152	442	4,412	103,983
Segment profit	72,736	1,267	80,145	53,732	398	208,278
Other income, gains and losses, net						7,317
Net exchange gain						68,465
Unallocated items						(3,133)
Profit before tax						280,927

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

	Property development		Property investment		Others	Total
	Shanghai RMB'000	Chongqing RMB'000	Shanghai RMB'000	Chongqing RMB'000		
Revenue						
External sales	121,098	12,300	498	53	3,526	137,475
Segment profit (loss)	97,165	(413)	846,412	7,205	(2,840)	947,529
Other income, gains and losses, net						9,095
Net exchange loss						(25,940)
Unallocated items						(39,657)
Profit before tax						891,027

The accounting policies of the operating segments are the same as the Group's accounting policies as described in note 2. Segment result represents the profit earned by (loss incurred from) each segment including the changes in fair value of investment properties without allocation of other income, gains and losses, net, selling expenses, net exchange gain (loss), and administrative expenses including share-based payments and directors' emoluments. This is the measure reported to the Company's Chief Executive Officer, for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Revenue		
Sales of properties	98,977	133,398
Property rental income	594	551
Property management income	4,412	3,526
	103,983	137,475
Other income, gains and losses, net		
Gain on disposal of investment properties	4,425	7,250
Interest on bank deposits	2,789	1,759
Others	103	86
	7,317	9,095
Total revenue and other income and gains and losses, net	111,300	146,570

5. FINANCE COSTS

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Interest on other borrowings	234,898	184,290
Interest on bank borrowings	2,566	55,190
Effective interest expense on fixed-rate senior notes	121,323	116,034
Effective interest expense on convertible note	33,587	28,725
Total finance costs	392,374	384,239
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	(392,374)	(384,239)
	—	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

5. FINANCE COSTS — continued

Borrowing costs capitalized during the period which arose on the specific borrowings are approximately RMB186,317,000 (six months ended June 30, 2016: RMB233,066,000). Borrowing costs capitalized during the period which arose on the general borrowing pool of approximately RMB206,057,000 (six months ended June 30, 2016: RMB151,173,000) are calculated by applying a capitalization rate of 12.80% per annum (six months ended June 30, 2016: 13.10%) to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Current tax:		
Enterprise income tax in the PRC	15,699	21,715
Deferred tax:		
Current period	33,321	213,271
	49,020	234,986

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 2016 and 2017. 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 RMB21,218,621,000 (December 31, 2016: RMB21,006,105,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

7. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Profit for the period has been arrived at after charging (crediting):		
Directors' emoluments	674	651
Other staff costs		
— Salaries and other benefits	15,051	14,660
— Contribution to retirement benefits schemes	3,490	2,756
Total staff costs	19,215	18,067
Less: Amount capitalized in investment properties under construction and properties under development for sales	(5,968)	(5,815)
	13,247	12,252
Auditors' remuneration	560	378
Amortization of prepaid lease payments	1,574	1,574
Less: Amount capitalized in construction in progress under property, plant and equipment	(1,552)	(1,552)
	22	22
Depreciation of property, plant and equipment	1,269	1,485
Less: Amount capitalized in construction in progress under property, plant and equipment	(185)	(678)
	1,084	807
Cost of properties sold (included in cost of sales)	24,974	36,646
Gross rental income from investment properties	(594)	(551)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	19	19
	(575)	(532)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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,	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited) (restated)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	231,907	656,041
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	(33,866)	1,684
— Effective interest expense on convertible note (net of income tax) (Note)	—	—
Earnings for the purpose of diluted earnings per share	198,041	657,725
	'000	'000
Number of shares		
Weighted average 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
Weighted average 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.

9. DIVIDENDS

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

10. INVESTMENT PROPERTIES

	June 30, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note a)	2,675,460	2,689,480
Investment properties under construction	49,168,380	48,768,565
Total	51,843,840	51,458,045

Note:

- (a) As at June 30, 2017, 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 RMB2,194,160,000 (December 31, 2016: RMB2,170,250,000); which 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 target tenants for both Phase 1 and Phase 2 North Portion of Shanghai Concord City.

The fair values of certain of the Group's investment properties at June 30, 2017 and December 31, 2016 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, a member of the Institute of Valuers and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2017 determined by Colliers are approximately RMB41,242,387,000 (December 31, 2016: RMB41,021,926,000) and RMB10,601,453,000 (December 31, 2016: RMB10,436,119,000) 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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

10. INVESTMENT PROPERTIES — continued

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, 2017, 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 3% to 6% (December 31, 2016: ranging from 3% to 6%).
- ii. Rental rate per month per square metre is ranging from RMB366 to RMB1,769 (December 31, 2016: ranging from RMB359 to RMB1,740).
- iii. Occupancy rate for the investment properties is ranging from 40% to 98% (December 31, 2016: ranging from 40% to 98%).
- iv. Expected developer profit is ranging from 10% to 20% (December 31, 2016: ranging from 10% to 20%).
- v. Discount rate of retail and office portion is ranging from 8% to 9% (December 31, 2016: ranging from 8% to 9%) per annum and 9% (December 31, 2016: 9%) per annum respectively.
- vi. Rate of finance cost is ranging from 5% to 6% (December 31, 2016: ranging from 5% to 6%).
- vii. Annual growth rate of rental income is ranging from 5% to 6% (December 31, 2016: ranging from 5% to 6%).

For investment properties located in Chongqing

For the six months ended June 30, 2017, 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 7% to 8% (December 31, 2016, ranging from 7% to 8%).
- ii. Rental rate per month per square metre is ranging from RMB218 to RMB822 (December 31, 2016: ranging from RMB216 to RMB820).
- iii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2016: ranging from 60% to 85%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

10. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

- iv. Expected developer profit is ranging from 25% to 30% (December 31, 2016: ranging from 25% to 30%).
- v. Discount rate of retail and office portion is 10% (December 31, 2016: 10%) per annum and 5% (December 31, 2016: 5%) respectively.
- vi. Rate of finance cost is 5% (December 31, 2016: 5%).
- vii. Annual growth rate of rental income is ranging from 5% to 6% (December 31, 2016: ranging from 5% to 6%).

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 and are classified and accounted for as investment properties.

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

Considerations 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, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Prepayment of business taxes and other PRC taxes	30,409	29,669
Other receivables, deposits and prepayments	170,753	169,587
	201,162	199,256

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

12. BORROWINGS

	June 30, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Bank borrowings, secured	84,167	255,144
Other borrowings, secured	4,698,510	5,000,027
	4,782,677	5,255,171

Bank borrowings

As at June 30, 2017 and December 31, 2016, entire balances of bank borrowings represent variable-rate bank borrowings. The interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the People's Bank of China or Hong Kong Interbank Offered Rates plus a premium.

During the 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, 2017 (unaudited)	December 31, 2016 (audited)
Effective interest rate:		
Variable-rate bank borrowings	2.37% to 4.35%	2.65% to 4.35%

Other borrowings

As at June 30, 2017 and December 31, 2016, entire balances of other borrowings represent fixed-rate borrowings. Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately RMB1,578,510,000 (December 31, 2016: RMB1,140,027,000) are shown under current liabilities. At June 30, 2017, the balances of approximately RMB3,120,000,000 (December 31, 2016: RMB3,860,000,000) 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 10.15% (December 31, 2016: 10.22%) per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

12. BORROWINGS — continued

Other borrowings — continued

The bank and other borrowings outstanding as of June 30, 2017 were secured by the following:

- property, plant and equipment with a net carrying value of approximately RMB247,255,000 (December 31, 2016: RMB280,839,000);
- investment properties with a value of approximately RMB45,620,270,000 (December 31, 2016: RMB42,576,579,000);
- properties under development for sales with a carrying value of approximately RMB1,565,220,000 (December 31, 2016: RMB1,501,790,000);
- properties held for sales with a carrying value of approximately RMB170,816,000 (December 31, 2016: RMB188,152,000); and
- pledged bank deposits of approximately RMB103,077,000 (December 31, 2016: RMB278,517,000).

At December 31, 2016, prepaid lease payments with a carrying value of approximately RMB2,035,000 were secured to a bank borrowing. The prepaid lease payments have been released from pledge of this bank loan during the period.

13. 13.5% FIXED RATE SENIOR NOTES

On October 8, 2013 and October 22, 2013, the Company issued approximately US\$150 million and US\$100 million 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, 2016 dated March 30, 2017.

At June 30, 2017, an amount of RMB48,367,000 (December 31, 2016: RMB49,912,000), which represents the interest portion of the senior notes to be repaid to the notes holders 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 December 31, 2016 and at June 30, 2017 are insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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 was 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 of Hong Kong Limited 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.

The convertible note is denominated in HK\$ and contain two components, debt component and conversion option derivative. The effective interest rate of the debt 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

14. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — continued

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

	At June 30, 2017	At December 31, 2016
Spot price (HK\$)	1.79	1.80
Exercise price (HK\$)	2.42	2.42
Risk-free interest rate	0.52%	0.97%
Discount rate	19.25%	20.59%
Volatility	31.071%	39.894%
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, 2016, such option is exercisable at end of both of the reporting period.

Expected volatility of the conversion option derivative was determined using the historical volatility of the price return of the ordinary shares of comparable companies. Because the binomial 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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:

	Debt component RMB'000	Conversion option derivative RMB'000	Total RMB'000
As at January 1, 2016 (restated)	311,862	59,363	371,225
Interest charged	60,360	—	60,360
Interest paid	(21,483)	—	(21,483)
Gain arising on changes in fair value	—	(4,064)	(4,064)
Effect of foreign currency exchange differences recognized to profit or loss	23,723	3,998	27,721
As at December 31, 2016	374,462	59,297	433,759
Interest charged (Note 5)	33,587	—	33,587
Gain arising on changes in fair value	—	(33,866)	(33,866)
Effect of foreign currency exchange differences recognized to profit or loss	(12,077)	(1,345)	(13,422)
As at June 30, 2017	395,972	24,086	420,058

	June 30, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Analysis for reporting purpose as:		
Current portion (Note)	8,405	8,673
Non-current portion	411,653	425,086
	420,058	433,759

Note: The current portion of debt component represents interest portion of the convertible note to be repaid within twelve months from the end of the reporting period, is included in the other payables and accruals.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorized:		
At January 1, 2016, June 30, 2016, December 31, 2016, January 1, 2017 and June 30, 2017	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2016, June 30, 2016, December 31, 2016, January 1, 2017 and June 30, 2017	1,809,077,000	180,907
Presented in consolidated financial statements as:		
At January 1, 2016, June 30, 2016, December 31, 2016, January 1, 2017 and June 30, 2017		RMB170,073,000

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, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	514,155	483,114

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 of the Company, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

16. CONTINGENT LIABILITIES — continued

Legal disputes

As at June 30, 2017, 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 and properties held for sale in an aggregate amount of approximately RMB70 million (December 31, 2016: RMB62 million) and the withdrawal of bank deposits of approximately RMB6 million (December 31, 2016: RMB6 million) as at June 30, 2017. 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 management has sought advices from the independent legal advisors or internal legal counsel, as at June 30, 2017, the Group has provided the construction cost liabilities amounting to RMB68 million (December 31, 2016: RMB69 million) in relation to the above mentioned construction contracts under dispute. The net financial effect of both claims and counter-claims is considered insignificant.

For those outstanding legal claims are still in preliminary stage, according to the advice from the independent legal advisors and internal legal counsel of the Group, the final outcome is unable to be determined at this stage amounted to approximately RMB62 million (December 31, 2016: RMB55 million) in aggregate. Accordingly no further 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, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Construction commitment contracted for but not provided	1,478,430	1,100,543

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Within one year	591	583
In the second to fifth year inclusive	2,474	2,474
After the fifth year	2,705	2,706
	5,770	5,763

Leased properties have committed tenants ten (December 31, 2016: ten) years.

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30, 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited) (restated)
Premises	1,755	1,768

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

18. OPERATING LEASE COMMITMENTS — continued

As lessee — continued

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, 2017 RMB'000 (unaudited)	December 31, 2016 RMB'000 (audited)
Within one year	486	2,023
In the second to fifth year inclusive	460	—
	946	2,023

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, 2016: 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 while request for payment will only be made when the Company has excess cash.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

19. RELATED PARTY TRANSACTIONS — continued

(ii) Other transactions

During the six months ended June 30, 2017, 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:

Nature of transactions	Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited) (restated)
Office premises expenses (Note)	15	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 ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2011 to July 31, 2014 and a 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.

(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,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited) (restated)
Short term benefits	674	651

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

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.

- 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, 2017	Fair value as at December 31, 2016	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Conversion option derivative	Liability: RMB24,086,000	Liability: RMB59,297,000	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 (Note).

Note: 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, 2017 and 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Reconciliation of Level 3 fair value measurements of conversion option derivative

	RMB'000
At January 1, 2016	59,363
Fair value gain recognized in profit or loss	(4,064)
Effect of foreign currency exchange differences recognized to profit or loss	3,998
At January 1, 2017	59,297
Fair value gain recognized in profit or loss (Note)	(33,866)
Effect of foreign currency exchange differences recognized to profit or loss	(1,345)
At June 30, 2017	24,086

Note: The gain for the period of RMB33,866,000 relates to conversion option derivative held at the end of the current reporting period.

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. At the end of each reporting period, the senior management works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Discussion of valuation process and results are held between senior management and the directors of the Company at least twice a year. 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 of the Company 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, 2017, the carrying amount of the fixed-rate senior notes was approximately RMB1,732,562,000 (December 31, 2016: RMB1,782,734,000) and the fair values of fixed-rate senior notes (categorized within Level 2 hierarchy) of approximately RMB1,747,743,000 (December 31, 2016: RMB1,841,819,000) 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 1.69% (December 31, 2016: 1.48%), and the spread of 9.26% (December 31, 2016: 8.63%) derived from the Hull-White One-Factor Model. The fair values of other financial assets and financial liabilities (categorized within Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.