



NEW CITY DEVELOPMENT GROUP LIMITED

新城市建設發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

INTERIM REPORT **2017**

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INTERIM RESULTS

The Board of Directors (the “Board”) of New City Development Group Limited (the “Company”) are pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2017 (the “Period”) with the comparative figures for the previous corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|-----------------|
| | | 2017 | 2016 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| Revenue | 4 | 18,801 | 16,874 |
| Cost of services provided | | (1,255) | (1,316) |
| Gross profit | | 17,546 | 15,558 |
| Other income and gains | 4 | 4,471 | 5,967 |
| Administrative and other operating expenses | | (14,994) | (14,214) |
| Finance costs | 6 | (6,074) | (7,075) |
| Profit before tax | 5 | 949 | 236 |
| Income tax expense | 7 | (238) | (508) |
| Profit/(loss) for the Period | | 711 | (272) |
| Attributable to: | | | |
| Owners of the Company | | 744 | (233) |
| Non-controlling interest | | (33) | (39) |
| | | 711 | (272) |
| Earning/(loss) per share | | | |
| Basic | 9 | 0.02 cents | (0.01) cents |
| Diluted | 9 | 0.02 cents | (0.01) cents |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Profit/(loss) for the Period | 711 | (272) |
| Other comprehensive income | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | 17,547 | (5,257) |
| Other comprehensive income for the Period, net of tax | 17,547 | (5,257) |
| Total comprehensive income for the Period | 18,258 | (5,529) |
| Attributable to: | | |
| Owners of the Company | 18,274 | (5,471) |
| Non-controlling interest | (16) | (58) |
| | 18,258 | (5,529) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | At 30 June 2017 (Unaudited) HK\$'000 | At 31 December 2016 (Audited) HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 2,691 | 1,968 |
| Investment properties | 10 | 763,319 | 736,551 |
| Investment in an associate | | – | – |
| Available for sales investment | | – | – |
| Prepayments | 12 | 130,579 | 124,377 |
| Total non-current assets | | <u>896,589</u> | <u>862,896</u> |
| CURRENT ASSETS | | | |
| Equity investment at fair value through profit or loss | 14 | 33,745 | 37,628 |
| Prepayments, deposits and other receivables | 12 | 48,590 | 39,745 |
| Due from an associate | | 9 | 9 |
| Due from a related company | | 8 | 8 |
| Cash and bank balances | | 30,429 | 40,045 |
| Total current assets | | <u>112,781</u> | <u>117,435</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 13,433 | 12,872 |
| Deposits received | | 8,637 | 7,738 |
| Finance lease payable | | 15 | 101 |
| Interest bearing bank borrowings, secured | 13 | 3,448 | 3,334 |
| Due to a non-controlling shareholder | | 5,233 | 4,710 |
| Due to related parties | | 629 | 609 |
| Due to directors | | 1,500 | 1,440 |
| Tax payable | | 7 | 1,371 |
| Total current liabilities | | <u>32,902</u> | <u>32,175</u> |
| NET CURRENT ASSETS | | <u>79,879</u> | <u>85,260</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>976,468</u> | <u>948,156</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing bank borrowings, secured | 13 | 201,702 | 196,700 |
| Deferred tax liabilities | | 152,815 | 147,763 |
| Total non-current liabilities | | <u>354,517</u> | <u>344,463</u> |
| Net assets | | <u>621,951</u> | <u>603,693</u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | 15 | 13,268 | 13,268 |
| Reserves | | 608,264 | 589,990 |
| | | <u>621,532</u> | <u>603,258</u> |
| Non-controlling interests | | 419 | 435 |
| Total equity | | <u>621,951</u> | <u>603,693</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

| | Share capital | Share premium | Contributed surplus | Translation reserve | Retained profits | Total | Non- controlling interest | Total equity |
|--|------------------|------------------|------------------------|------------------------|---------------------|-----------------|---------------------------------|-----------------|
| | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> | <i>HKS '000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| At 1 January 2017 | 13,268 | 457,758 | 4,755 | (49,408) | 176,885 | 603,258 | 435 | 603,693 |
| Profit for the period | - | - | - | - | 744 | 744 | (33) | 711 |
| Exchange differences on translation of foreign operations | - | - | - | 17,530 | - | 17,530 | 17 | 17,547 |
| | - | - | - | 17,530 | 744 | 18,274 | (16) | 18,258 |
| At 30 June 2017 | <u>13,268</u> | <u>457,758</u> | <u>4,755</u> | <u>(31,878)</u> | <u>177,629</u> | <u>621,532</u> | <u>419</u> | <u>621,951</u> |
| At 1 January 2016 | 13,268 | 457,758 | 4,755 | (22,493) | 175,591 | 628,879 | 553 | 629,432 |
| Loss for the period | - | - | - | - | (233) | (233) | (39) | (272) |
| Exchange differences on translation of foreign operations | - | - | - | (5,238) | - | (5,238) | (19) | (5,257) |
| | - | - | - | (5,238) | (233) | (5,471) | (58) | (5,529) |
| At 30 June 2016 | <u>13,268</u> | <u>457,758</u> | <u>4,755</u> | <u>(27,731)</u> | <u>175,358</u> | <u>623,408</u> | <u>495</u> | <u>623,903</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| NET CASH FLOWS FROM/(USED IN) | | |
| OPERATING ACTIVITIES | 1,515 | (86,438) |
| NET CASH FLOWS USED IN | | |
| INVESTING ACTIVITIES | (4,698) | (2,965) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | (7,447) | (6,263) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (10,630) | (95,666) |
| CASH AND CASH EQUIVALENTS | | |
| AT THE BEGINNING OF PERIOD | 40,045 | 164,278 |
| Effect of foreign exchange rate changes, net | 1,014 | 1,509 |
| CASH AND CASH EQUIVALENTS | | |
| AT THE END OF PERIOD | 30,429 | 70,121 |
| ANALYSIS OF BALANCES OF CASH AND | | |
| CASH EQUIVALENTS | | |
| Cash and bank balances | 30,429 | 70,121 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATION INFORMATION

New City Development Group Limited (the “Company”) is a limited liability company incorporated in Cayman Islands on 10 August 1998. The registered office of the Company is located at P.O. Box 31119 Grand Pavilion Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands and its principal place of business in Hong Kong is situated at Flat D, 17/F., MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong.

The Company is an investment holdings company. The Company and its subsidiaries (collectively the “Group”) is principally engaged in property development and investment business in the People’s Republic of China (the “PRC”).

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 (the “Unaudited Condensed Consolidated Interim Financial Statements”) have been approved for issue by the Board on 11 August 2017.

2.1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the Unaudited Condensed Consolidated Interim Financial Statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Unaudited Condensed Consolidated Interim Financial Statements should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2016 (the “2016 Annual Financial Statements”) which were prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by HKICPA.

These interim results are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Other than the adoption of new and revised HKFRSs and Interpretations as noted below, the accounting policies adopted in the preparation of the Unaudited Condensed Consolidated Interim Financial Statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 December 2016.

New and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for first time for the current period's interim report. The adoption of these new and revised HKFRSs did not have any significant effect on the financial position or performance of the Group.

| | |
|------------------------|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses |
| Amendments to HKFRS 12 | Annual Improvements to HKFRSs 2014-2016 Cycle – various standards |

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these Unaudited Condensed Consolidated Interim Financial Statements.

| | |
|------------------------------------|--|
| HKFRS 15 | Revenue from Contracts with Customers ¹ |
| HKFRS 9 | Financial Instruments ¹ |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendments to HKAS 40 | Transfers of Investment Property ¹ |
| Amendments to HKFRS 1 and HKAS 28 | Annual Improvements to HKFRSs 2014-2016 Cycle – various standards ¹ |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| HKFRS 16 | Leases ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |

- ¹ Effective for annual periods beginning on or after 1 January 2018.
- ² Effective for annual periods beginning on or after 1 January 2019.
- ³ No mandatory effective date yet determined but available for adoption.

The Group is in the process of making an assessment of the impact of these new and revised HKFRS upon initial application. So far, the Group considers that the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's primary operating segment is property development and investment in the PRC. Since this is the only operating segment of the Group, no further analysis thereof is presented.

Geographical information

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of total assets and revenue was disclosed.

Information about a major customer

Rental income and related management service income

There are no significant concentrations of credit risk within the Group because there is a large number of diversified tenants.

4. REVENUE, OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|--|--------------------------|-------------------------|
| | 2017 | 2016 |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| Revenue | | |
| Rental income and related management service income | 18,801 | 16,874 |
| | 18,801 | 16,874 |
| Other income | | |
| Interest income | 39 | 242 |
| Interest income and other income from amount due from Beijing Zhongzheng (<i>note 12(d)</i>) | 3,703 | 3,402 |
| Fair value gain on investment properties | – | 2,323 |
| Others | 729 | – |
| | 4,471 | 5,967 |
| Total revenue, other income | 23,272 | 22,841 |

5. PROFIT BEFORE TAX

| | Six months ended 30 June | |
|--|--------------------------|-------------------------|
| | 2017 | 2016 |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| The Group's profit before tax has been arrived at after charging/(crediting): | | |
| Depreciation of property, plant and equipment | | |
| – Owned assets | 174 | 272 |
| – Leased assets | 92 | 92 |
| Fair value loss on equity investment at fair value through profit or loss (<i>note 14</i>) | 5,418 | 3,730 |
| Interest income | (39) | (242) |
| Interest income and other income from amount due from Beijing Zhongzheng (<i>note 12(d)</i>) | (3,703) | (3,402) |
| Fair value gain on investment properties (<i>note 10</i>) | – | (2,323) |
| Others | (729) | – |

6. FINANCE COSTS

| | Six months ended 30 June | |
|----------------------------|---------------------------------|---------------------------------|
| | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Interest on finance leases | 2 | 7 |
| Interest on bank loan | 6,072 | 7,068 |
| | <u>6,074</u> | <u>7,075</u> |

7. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2017 and 2016.

Taxes on profits in respect of the Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax countries/jurisdictions in which they operate based on existing legislation, interpretations and practices in respect thereof.

| | Six months ended 30 June | |
|---------------------------------|---------------------------------|---------------------------------|
| | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Current tax: | | |
| Hong Kong | – | – |
| PRC | 238 | (73) |
| | <u>238</u> | <u>(73)</u> |
| Deferred tax | – | 581 |
| | <u>–</u> | <u>581</u> |
| Total tax charge for the Period | <u>238</u> | <u>508</u> |

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (2016: Nil).

9. EARNING/(LOSS) PER SHARE

(i) Basic earning/(loss) per share

The calculation of the basic earning/(loss) per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| Profit/(loss) for the Period attributable to ordinary equity holders of the Company, used in the basic earning/(loss) per share calculation (HK\$'000) | <u>744</u> | <u>(233)</u> |
| Weighted average number of ordinary shares in issue during the Period used in basic earnings/(loss) per share calculation (in thousand) | <u>3,317,045</u> | <u>3,317,045</u> |

(ii) Diluted earning/(loss) per share

No adjustment has been made to the basic earning/(loss) per share for the periods ended 30 June 2017 and 2016 in respect of a dilution because there was no potentially dilutive event existed during the Period.

10. INVESTMENT PROPERTIES

| | The Guangzhou | | The Luoyang | | Total | |
|--------------------------------|--------------------------|----------------|--------------------|---------------|----------------|----------------|
| | Properties at fair value | | Properties at cost | | | |
| | At | At | At | At | At | At |
| | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | (Audited) | (Unaudited) | (Audited) | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Completed project | | | | | | |
| Investment properties | | | | | | |
| in Guangzhou (note (a)) | | | | | | |
| Carrying amount at | | | | | | |
| 1 January | 667,892 | 705,660 | – | – | 667,892 | 705,660 |
| Change in fair value of | | | | | | |
| investment properties (note 5) | – | 1,211 | – | – | – | 1,211 |
| Exchange realignment | 22,838 | (38,979) | – | – | 22,838 | (38,979) |
| | <u>690,730</u> | <u>667,892</u> | <u>–</u> | <u>–</u> | <u>690,730</u> | <u>667,892</u> |
| Incomplete project | | | | | | |
| Investment properties | | | | | | |
| in Luoyang (note (b)) | | | | | | |
| Carrying amount at 1 January | – | – | 68,659 | 72,662 | 68,659 | 72,662 |
| Exchange realignment | – | – | 3,930 | (4,003) | 3,930 | (4,003) |
| | <u>–</u> | <u>–</u> | <u>72,589</u> | <u>68,659</u> | <u>72,589</u> | <u>68,659</u> |
| Carrying amount at | | | | | | |
| 30 June/31 December | <u>690,730</u> | <u>667,892</u> | <u>72,589</u> | <u>68,659</u> | <u>763,319</u> | <u>736,551</u> |

Notes:

- (a) Investment properties in Guangzhou (the “Guangzhou Properties”) are situated at Nos. 20-22 Chigang West Road, Haizhu District, Guangzhou City, Guangdong Province, the PRC and are held under medium term leases.

The Guangzhou Properties were leased to tenants under operating leases for rental income and management service income (note 5), further summary details of which are included in note 19 to the consolidated financial statements. The Guangzhou Properties were stated at fair value at the end of the reporting period.

At 30 June 2017, the Guangzhou Properties with carrying amount of approximately HK\$690,730,000 (Year ended 31 December 2016: HK\$667,892,000) were pledged to secure bank borrowings, details of which are set out in note 13 to the consolidated financial statements.

The fair value of the Guangzhou Properties has been assessed by Access Partner Consultancy & Appraisals Limited (“Access Partner”), the independent valuers (the “Valuers”), by using the income approach to be RMB601,000,000 (equivalent to approximately HK\$690,730,000) (Year ended 31 December 2016: RMB601,000,000 (equivalent to approximately HK\$667,892,000)) as at 30 June 2017.

As at 30 June 2017, the directors of the Company considered there were no material differences between the carrying amounts and the fair value measured by Valuers as at 31 December 2016 after taking into account of the following matters:

- the methodology, assumptions and key factors used in the valuation; and
 - all major inputs to the independent valuation report.
- (b) Investment properties in Luoyang (the “Luoyang Properties”) represented the construction in progress of a parcel of land which are situated at 洛陽新區伊濱區環湖路以東、白塔路以南、開拓大道以西、用地界以北, Luoyang, the PRC. The Luoyang Properties were acquired through the acquisition of the subsidiaries during the year ended 31 December 2015. The Luoyang Properties comprise a parcel of land held under medium term leases with a site area of 69,942.185 square metres which can be developed into a total gross floor area of 173,724.12 square metres. Its carrying amount comprised the land use right and directly attributable costs and was stated at acquisition cost of RMB61,782,000 (equivalent to HK\$72,589,000 (Year ended 31 December 2016: HK\$68,659,000)), and less impairment, if any. The Directors are of opinion that the construction planning of the Luoyang Properties has yet been determined as at 31 December 2016 and accordingly, its fair value cannot be measured reliably.

Pursuant to a land use right agreement (國有建設用地使用權出讓合同) (the “Land Use Right Agreement”) of the Luoyang Properties, which was entered into between 洛陽萬亨置業有限公司 (“洛陽萬亨”), a subsidiary of the Company upon completion of the Faith Onward Acquisition, and 洛陽國土資源局 (“國土局”) on 1 February 2013, 洛陽萬亨 is required to commence and complete the construction of the Luoyang Properties on or before 1 September 2013 and 1 September 2016 (the “Construction Period”), respectively. A penalty (the “Penalty”) calculated at 0.1% per day on the original consideration paid by 洛陽萬亨 for the land use right, which was approximately RMB 31,270,000, will be imposed by 國土局 if the construction was not commenced on time or the completion of the construction falls beyond the Construction Period. The land use right may also be forfeited (the “Forfeiture”) by 國土局 if the construction has not been completed beyond 60 days of the Construction Period. On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The Directors have sought a legal advice from a PRC lawyer in December for the year ended 31 December 2016 and are of the opinion that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government in the prior year and the risk for the Penalty or the loss on the Forfeiture is not material. Accordingly, no provision in respect of the Penalty and/or the Forfeiture, if any, has been included in the consolidated financial statements as at 30 June 2017 and 31 December 2016.

Impairment assessment of the Luoyang Properties

The recoverable amount of the Luoyang Properties has been assessed by an independent valuer, Access Partner, as at 31 December 2016. No impairment in respect of the Luoyang Properties has been provided as the recoverable amount of the Luoyang Properties was higher than its carrying amount as at 30 June 2017 (2016: Nil).

The directors of the Company considered to adopt the recoverable amount measured by Access Partner on 31 December 2016 as there is no material changes on the fundamental of the valuations.

Pursuant to Access Partner’s valuation report dated 31 March 2017, the recoverable amount of the Luoyang Properties was approximately of RMB68,000,000 (equivalent to approximately HK\$78,152,000) (Year ended 31 December 2016: RMB68,000,000 equivalent to approximately HK\$75,568,000) which measured using the direct comparison method based on market observable transactions of similar properties without any significant adjustments.

11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold building <i>HK\$'000</i> | Leasehold improvement <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|--|--------------------------------------|--------------------------|
| Cost | | | | | |
| At 1 January 2017 | 986 | 1,767 | 1,897 | 2,073 | 6,723 |
| Additions | – | – | 14 | 919 | 933 |
| Exchange realignment | 34 | 19 | 39 | 2 | 94 |
| At 30 June 2017 | 1,020 | 1,786 | 1,950 | 2,994 | 7,750 |
| Aggregate depreciation | | | | | |
| At 1 January 2017 | (205) | (1,575) | (1,254) | (1,721) | (4,755) |
| Depreciation provided during the Period | (10) | (57) | (51) | (148) | (266) |
| Exchange realignment | (7) | (13) | (22) | 4 | (38) |
| At 30 June 2017 | (222) | (1,645) | (1,327) | (1,865) | (5,059) |
| Carrying amount | | | | | |
| At 30 June 2017 | 798 | 141 | 623 | 1,129 | 2,691 |
| At 31 December 2016 | 781 | 192 | 643 | 352 | 1,968 |

The carrying amount of the Group's motor vehicles held under finance leases included in the total amount of motor vehicles as at 30 June 2017 amounted to HK\$ Nil (Year ended 31 December 2016: 92,000).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|--|--|--|
| Prepayments | | |
| – Prepaid professional fee for the Luoyang Properties (<i>note (a)</i>) | 1,639 | 1,532 |
| – Prepaid renovation and improvement costs (the “Prepaid Renovation Costs”) of the Guangzhou Properties (<i>notes (b)</i>) | 73,440 | 67,345 |
| – Others | 603 | 1,059 |
| Deposits | | |
| – Vision Deposit and the Escrow Amount (<i>note (c)</i>) | 55,500 | 55,500 |
| – Others | 274 | 274 |
| Other receivables | | |
| – Due from Beijing Zhongzheng (<i>note (d)</i>) | 41,861 | 36,858 |
| – Others | 5,852 | 1,554 |
| | <u>179,169</u> | <u>164,122</u> |
| Less: Non-current portion | | |
| Prepaid professional fee and the Prepaid Renovation Costs classified as non-current assets | (130,579) | (124,377) |
| Current portion | <u>48,590</u> | <u>39,745</u> |

Notes:

- (a) The prepaid professional fee represented design fee and environmental assessment paid to independent construction consultants for the Luoyang Properties with a total contract sum of RMB11,119,000 (equivalent to approximately HK\$12,779,000) (Year ended 31 December 2016: RMB11,119,000 (equivalent to approximately HK\$12,356,000)). As at 30 June 2017, an aggregate amount of RMB1,426,000 (equivalent to approximately HK\$1,639,000) (Year ended 31 December 2016: RMB\$1,379,000 (equivalent to approximately HK\$1,532,000)) has been prepaid by the Group to the consultants for preparation of the work.

- (b) On 28 August 2015, the Group entered into a properties renovation, improvement and upgrading contract (裝修及設備改造項目工程施工合同) (the “Renovation Contract”) with 北京吉彩裝飾工程有限公司 (“北京吉彩”, a related company of the Company, of which Mr. Han Junran (“Mr. Han”), a director and substantial shareholder of the Company and his close family members are the ultimate shareholders, for the renovation, improvement and upgrading of the Guangzhou Properties (the “Properties Improvement”) with a total contract sum (the “Contract Sum”) of RMB133,500,000 (equivalent to approximately HK\$148,359,000). Pursuant to the Renovation Contract, the Group is required to prepay (the “北京吉彩 Prepaid Renovation Cost”) RMB80,100,000, being 60% of the Contract Sum, to 北京吉彩 with the remaining 35% and 5% of the Contract Sum payable upon completion and user acceptance of the Properties Improvement and 10 days after the 2 years’ maintenance period, respectively. The renovation period (the “Renovation Period”) is from 15 September 2015 to 15 September 2017. As at 30 June 2017, an aggregate amount of RMB63,900,000 (equivalent to approximately HK\$73,440,000 (Year ended 31 December 2016: RMB60,600,000 (equivalent to approximately HK\$67,345,000)) has been prepaid by the Group to 北京吉彩 which is guaranteed by 北京貝盟國際建築裝飾工程有限公司 (the “Guarantor”), an independent third party, pursuant to an agreement (the “Three Parties Agreement”) entered into between the Group, 北京吉彩 and the Guarantor on 28 August 2015 whereby the Guarantor irrevocably guarantees and undertakes to procure 北京吉彩 to execute and fulfill its duties and responsibilities (the “Duties”) under the Renovation Contract. Upon 北京吉彩’s failure to perform its Duties, the Guarantor shall (i) repay to the Group the 北京吉彩 Prepaid Renovation Cost; and (ii) perform the Duties on behalf of 北京吉彩 at the Group’s request. On 15 March 2016, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the responsibilities and duties of the Guarantor under the Three Parties Agreement.

However, the original renovation, improvement and upgrading plan has been modified (the “Modified Renovation Plan”) by the directors during the year ended 31 December 2016. Therefore, the Group further entered into two memorandum of understanding (the “中科建設 MOU”) with 中科建設開發總公司天津分公司 (“中科建設”) on 26 August 2016 and 6 September 2016, respectively, for engaging 中科建設 as the main contractor for the Properties Improvement while retaining 北京吉彩 as the subcontractor. Pursuant to the 中科建設 MOU, the total contract sum of the Properties Improvement is revised to RMB180,000,000 (equivalent to approximately HK\$200,034,000). Due to the modification, the Properties Improvement has been commenced in the second half of 2017, and the Directors are satisfied with the development of the progress.

- (c) The Group entered into a memorandum of understanding (the “Vision Products MOU”) with Vision Products Limited (“Vision Products”) on 20 June 2016, pursuant to which, the Group engaged Vision Products as a consultant to lead a project on the development of cultural business in different brands and icons with an expected contract sum of HK\$60,000,000 that the Group believes which would further contribute to the value of the Group. Vision Products has the experience and track records of building up cultural products and design of branded products and icons for various multinationals which are very popular in Europe and other markets worldwide. Pursuant to the Vision Products MOU, the Group has made deposit of approximately HK\$5,980,000 (the “Vision Deposit”) to Vision Products for its exclusive development for themed business so as to achieve their objective and target, (i) the attraction of family-based target consumer group with exclusive procurement of cultural products; (ii) promotion of different themes to the Group; and (iii) the nurture for people and family-based audience to become aware of our brands, products and the Group.

The Group has further taken this opportunity to leverage the expertise of Vision Products to contribute to the Modified Renovation Plan of renovating the Guangzhou Properties for upgrading it with new edge concept and value enhancement in collaboration with 廣州市青年設計師協會 (“GZYDA”) in contributing to the design conceptualization into the Properties Improvement. To ensure the technical, engineering and construction requirement can be performed to express the design conceptualization created by Vision Products and GZYDA, Vision Products would have to seek qualified engineering company to lead the Modified Renovation Plan for the Group’s final decision and appointment. However, in order to ensure the Group is having the financial strength and have specifically reserved the funding for such appointment of a well-qualified engineering company for the project, Vision Products has requested for a refundable deposit of approximately HK\$49,520,000 (the “Escrow Amount”) be escrowed for the specific purpose of construction cost involved in the renovation project so these contractors being approached by Vision Products would be comfortable and the necessary funding can be swiftly transferred to the selected contractor to fix the cost of the renovation upon the completion of the formal appointment with the selected contractor. The Group would then have a direct contractual relationship with the selected contractor being appointed.

On 31 December 2016, the Group further entered into an agreement with Mr. Han, pursuant to which, Mr. Han further guarantees the recoverability of the Vision Deposit and the Escrow Amount.

- (d) The amount represented the Judgement Debt recoverable from Beijing Zhongzheng in respect of the Litigation filed by Shanghai Fudan.

As detailed in note 16 to this report, in March 2016, Beijing Zhongzheng agreed to fully pay back the Judgement Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed sum of RMB5,000,000 (equivalent to approximately HK\$5,881,000) as compensation which shall be settled on or before 7 March 2018 and is guaranteed by 北京桑普新源技術有限公司, an independent third party. Accordingly, the directors are of the opinion that the Judgement Debt will be fully recovered from Beijing Zhongzheng and no further provision of the Litigation was recognised in the consolidated statement of profit or loss during the years ended 31 December 2015 and 2016.

Terms in Capital Letters are defined in note 16 to this report, in June 2017.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS, SECURED

| | Effective interest rate (%) | Maturity | At 30 June 2017 (Unaudited) HK\$'000 | At 31 December 2016 (Audited) HK\$'000 |
|--|-----------------------------------|----------|--|--|
| Bank loan – Guangzhou Loan (<i>note a</i>) | 5.94% | 2020 | 205,150 | 200,034 |
| | | | 205,150 | 200,034 |
| Analysed into: | | | | |
| Repayable: | | | | |
| Within one year or on demand | | | 3,448 | 3,334 |
| In the second to fifth years, inclusive | | | 201,702 | 196,700 |
| Total | | | 205,150 | 200,034 |
| Current portion | | | (3,448) | (3,334) |
| Non current portion | | | 201,702 | 196,700 |

Notes:

- (a) On 3 August 2015, Guangdong Changliu Investment Company Limited (“Changliu”), an indirect wholly-owned subsidiary of the Company entered into a loan agreement (the “BOGZ Loan Agreement”) with Bank of Guangzhou (“BOGZ”), pursuant to which, BOGZ agreed to grant a loan (the “BOGZ Loan”) in the amount of RMB180,000,000 (equivalent to HK\$206,874,000) (Year ended 31 December 2016: RMB180,000,000 (equivalent to HK\$200,034,000)) to Changliu for a term of 5 years, which is secured by legal charges over the Guangzhou Properties and has been fully drawn down by Changliu. The BOGZ Loan bears interest at 125% of the benchmark annual lending and deposit rate of the People’s Bank of China, which is repayable on a quarterly basis. The first instalment RMB1,500,000 has been repaid on February 2017. The remaining principal amount of the BOGZ Loan is repayable as follows: (i) three instalments of RMB1,500,000 (equivalent to approximately HK\$1,724,000) each on or before August 2017, February 2018 and August 2018, respectively; (ii) four instalments of RMB10,000,000 (equivalent to approximately HK\$11,493,000) each on or before February 2019, August 2019, February 2020 and August 2020, respectively; and (iii) the remaining balance of RMB134,000,000 (equivalent to approximately HK\$154,006,000) on or before August 2020.

14. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

| | At 30 June 2017 (Unaudited) HK\$'000 | At 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Listed equity investment, at market value in Taiwan | <u>33,745</u> | <u>37,628</u> |

The fair value of the equity investment as at 30 June 2017 was determined based on the quoted market bid price available on The Taiwan Stock Exchange resulting with a loss on equity investment at fair value through profit or loss of approximately HK\$5,418,000 (note 5). The above equity as at 30 June 2017 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

15. SHARE CAPITAL

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|--|--|--|
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK\$0.004 each | 40,000 | 40,000 |
| Issued and fully paid: | | |
| 3,317,045,040 ordinary shares of HK\$0.004 each | 13,268 | 13,268 |

Authorised share capital

| | Number of shares '000 | <i>HK\$'000</i> |
|------------------------------------|--------------------------------------|-----------------|
| At 1 January 2017 and 30 June 2017 | 10,000,000 | 40,000 |

Issued and fully paid

| | Number of shares '000 | Share capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|------------------------------------|--------------------------------------|---------------------------------------|---|---------------------------|
| At 1 January 2017 and 30 June 2017 | 3,317,045 | 13,268 | 457,758 | 471,026 |

16. LITIGATIONS

The Company and 北京中証房地產開發有限公司 (literally translated as Beijing Zhong Zheng Real Estate Development Company Limited) (“Beijing Zhongzheng”, an ex-subsiary of the Company which was disposed of in 2010) received a civil summons dated 15 May 2014 from the Higher People’s Court of Beijing City (the “Higher Court”), pursuant to which, an application for retrial of a civil court case (the “Litigation”) had been filed by 上海復旦光華信息科技股份有限公司 (literally translated as Shanghai Fudan Guanghua Information Technology Company Limited) (“Shanghai Fudan”). The Litigation was stemmed from a series of civil court proceedings commenced by Shanghai Fudan in Beijing No. 1 Intermediate People’s Court and the other courts in the PRC since 2003 which alleged that Beijing Zhongzheng had failed to perform its obligation under a sale contract dated 27 June 2002 entered into between Beijing Zhongzheng and Shanghai Fudan for selling certain real properties (the “Properties Transactions”) in the PRC to Shanghai Fudan at a consideration of US\$1,755,432 (equivalent to approximately HK\$13,605,000) (the “Allegation”). The Company became one of defendants as Shanghai Fudan claimed that Mr. Leung Kwo (梁戈) (“Mr. Leung”), the ex-director and former chairman of the Company, entered into a guarantee agreement (the “Guarantee Agreement”) with Shanghai Fudan on 28 June 2002 for and on behalf of the Company, pursuant to which, the Company acted as a guarantor to guarantee Shanghai Fudan that Beijing Zhongzheng should perform its obligation under the Properties Transactions.

In view of the Litigation, the directors of the Company (the “Directors”) have conducted extensive investigations, in which the Directors have (i) inspected all the minutes of the meetings of its board of directors from the date of its incorporation to the end of year 2013 to see if the Allegation has ever been brought to the attention of the Directors, (ii) contacted the key management personnel of Beijing Zhongzheng for ascertaining the merits of the Allegation, (iii) discussed in their meeting to determine the financial impact of the Litigation and the Allegation, and (iv) sought for legal advices from the lawyers in the Cayman Islands and the PRC (collectively, the “Lawyers”) in respect of the Litigation. From such investigations, the Company found that (i) there was no record showing that the Allegation has ever been brought to the attention of the Directors and they did not approve and sign the Guarantee Agreement, (ii) Beijing Zhongzheng was aware of the Allegation and Litigation, but it has no records in respect of the sales of the Properties Transactions or the receipt of the sales proceeds as alleged in the Litigation.

On 29 July 2015, the Company received, through the Lawyer, the judgment dated 14 May 2015 (the “Judgment”) granted by the Higher Court in respect of the Litigation, pursuant to which, the Higher Court overruled its own judgment dated 26 July 2013 and upheld the judgment dated 10 November 2010 granted by Beijing No.1 Intermediate People’s Court. The Higher Court ruled that both the Properties Transactions and the Guarantee Agreement were legally effective. The Higher Court also ordered that both the Company and Beijing Zhongzheng shall be jointly liable to repay to Shanghai Fudan the sum of RMB14,529,886 together with interest accrued thereon from 1 July 2002 up to the date of payment (collectively, the “Judgment Debt”) (which was preliminarily estimated by the Directors to be approximately RMB27,660,000 (equivalent to approximately HK\$33,607,000) (note 12(c)).

On 30 November 2015, the Company entered into a subscription agreement (the “Subscription Agreement”) with Mr. Zhu Ya Yong (朱亞勇) (the “Subscriber”), pursuant to which, the Subscriber agreed to negotiate with Shanghai Fudan for the entering into a debt settlement agreement between the Company, Shanghai Fudan and the Subscriber. It was intended that upon the completion of the debt settlement agreement, (i) the Company’s obligation to repay the Judgment Debt will be assumed or satisfied by the Subscriber; and (ii) the Company will be indebted to the Subscriber for a sum of HK\$33,606,830 which will be satisfied by way of the issuing of 136,060,042 shares of the Company at a subscription price of HK\$0.247 per share.

Subsequently, 北京億隆悅泰投資有限公司 (literally translated as Beijing Yi Long Yuet Thai Investments Limited (“Beijing Yi Long”), a related company of the Subscriber) was nominated by the Subscriber for the negotiation with Shanghai Fudan and reached a settlement of the Judgment Debt at an aggregate amount of RMB27,000,000 (equivalent to approximately HK\$31,755,000). Accordingly, the Company entered into a debt settlement agreement (執行和解協議) (the “Debt Settlement Agreement”) with Shanghai Fudan and Beijing Yi Long on 9 December 2015, pursuant to which, the amount of the Judgment Debt was agreed at RMB27,000,000 (equivalent to approximately HK\$31,755,000) which is interest-free, guaranteed and secured by a property of Beijing Yi Long (the “Yi Long Property”) and (i) as to RMB3,000,000 (equivalent to approximately HK\$3,528,000) payable at the date of signing of the Debt Settlement Agreement; and (ii) the remaining balance of RMB24,000,000 (equivalent to approximately HK\$28,277,000) repayable by 4 quarterly installments on 31 March, 30 June, 30 September and 31 December 2016, respectively.

On 30 December 2015, the Company further entered into an agreement (關於執行和解協議之四方協議) (the “Four Parties Agreement”) with the Subscriber, Beijing Yi Long and 北京創意金典投資諮詢服務有限公司 (“北京創意”), a company controlled by the Subscriber, pursuant to which, (i) the Subscriber undertakes the settlement of the Judgment Debt for the Company; (ii) Beijing Yi Long pledges the Yi Long Property to Shanghai Fudan as security against the Judgment Debt; and (iii) 北京創意 pays on behalf of the Subscriber RMB3,000,000 of the Judgment Debt. The Directors are of the opinion that upon the entering of the Four

Parties Agreement, the Company's obligation to repay the Judgment Debt has been assumed or satisfied by the Subscriber and therefore, the Company was indebted to the Subscriber in the sum of HK\$33,606,830 which was satisfied by the issuing of 136,060,042 shares of the Company at a subscription price of HK\$0.247 per share under the Subscription Agreement on 30 December 2015.

In view of the Litigation, the Directors have taken appropriate actions to negotiate with Beijing Zhongzheng for recovery of the Judgment Debt. On 7 March 2016, the Company entered into an agreement (關於支付承諾款項之三方協議) (the "Debt Recovery Agreement") with Beijing Zhongzheng, pursuant to which, Beijing Zhongzheng agreed to fully pay back the Judgment Debt to the Company together with (i) an interest at 15% per annum; and (ii) a fixed fee of RMB5,000,000 (equivalent to approximately HK\$5,881,000) as compensation (collectively, the "Recoverable Debt"). The Recoverable Debt shall be settled on or before 7 March 2018 and is guaranteed by 北京桑普新源技術有限公司, an independent third party. The Directors are of the opinion that the Judgment Debt will be fully recovered from Beijing Zhongzheng and no further provision of the Litigation was recognised in the consolidated statement of profit or loss during the six months ended 30 June 2017 and the year ended 31 December 2016.

17. CONTINGENT LIABILITIES

Pursuant to a land use right agreement (國有建設用地使用權出讓合同) (the "Land Use Right Agreement") of the Luoyang Properties, which was entered into between 洛陽萬亨置業有限公司 ("洛陽萬亨"), a subsidiary of the Company upon completion of the Faith Onward Acquisition and 洛陽國土資源局 ("國土局") on 1 February 2013, 洛陽萬亨 is required to commence and complete the construction of the Luoyang Properties on or before 1 September 2013 and 1 September 2016 (the "Construction Period"), respectively. A penalty (the "Penalty") calculated at 0.1% per day on the original consideration paid by 洛陽萬亨 for the land use right, which was approximately RMB31,270,000, may be imposed by 國土局 if the construction was not commenced on time or the completion of the construction falls beyond the Construction Period. The land use right may also be forfeited (the "Forfeiture") by 國土局 if the construction has not been completed beyond 60 days of the Construction Period. On 17 November 2016, the Group received a notice from 洛陽市城鄉一體化示範區管理委員會國土環保局, pursuant to which, the Group is required to commence the construction of the Luoyang Properties within 15 days after the date of the notice unless the Group has a reasonable excuse. The directors have sought a legal advice from a PRC lawyer in December for the year ended 31 December 2016 and are of the opinion that the delay of the construction of the Luoyang Properties was due to the changing of land policy by the Luoyang government in prior year and the risk for the Penalty or the loss on the Forfeiture is not material. Accordingly, no provision in respect of the Penalty and/or the Forfeiture, if any, has been included in the consolidated financial statements as at 30 June 2017 and 31 December 2016.

18. OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Within one year | 28,583 | 18,479 |
| In the second to fifth years, inclusive | 25,166 | 19,541 |
| | 53,749 | 38,020 |

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Within one year | 1,436 | 1,563 |
| In the second to fifth years, inclusive | 50 | 702 |
| | 1,486 | 2,265 |

19. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following commitment as at 30 June 2017.

(a) Proposed acquisition

On 8 November 2013, the Group entered into a co-operation agreement (the “Agreement”) with an independent third party (the “Vendor”) and Qingdao Chengtai Real Estate Development Company Limited 青島成泰房地產開發有限公司 (“Qingdao Chengtai”, a company wholly-owned by the Vendor), pursuant to which, the Group will acquire (the “Qingdao Acquisition”) the entire equity interest in Qingdao Chengtai in 2 phases at a consideration (the “Consideration”) of RMB 200,000,000 (equivalent to HK\$222,260,000), subject to the upward adjustment.

The principal asset of Qingdao Chengtai is a leasehold land (the “Land”) located in Qingdao City, Shangdong Province, the PRC which is intended for the development of real estates (the “Project”).

For the first phase (the “1st Phase”) of the Qingdao Acquisition, the Group shall acquire 65% equity interest in Qingdao Chengtai when, among other things, the planning approval of the Project is obtained from the relevant government authorities, which should be completed on or before 8 July 2014 and subsequently further extended to 30 June 2016. For the second phase (the “2nd Phase”) of the Qingdao Acquisition, the Group shall acquire the remaining 35% equity interest in Qingdao Chengtai when the Project has been completed.

The Consideration shall be satisfied by (i) as to RMB80,000,000 (equivalent to approximately HK\$88,904,000) by cash payable upon the completion of the 1st Phase; and (ii) as to RMB120,000,000 (equivalent to approximately HK\$133,356,000), subject to an upward adjustment, by transferring the corresponding parts of the real estate of the Project which worth RMB120,000,000 (equivalent to approximately HK\$133,356,000) upon the completion of the 2nd Phase.

However, the Qingdao Acquisition has been expired since 30 June 2016.

(b) Capital injection

On 12 July 2014, the Company entered into a letter of intent for co-operation with an independent third party (the “Partner”), pursuant to which, a Hong Kong company, New City Fortune Medicare Group Limited (“NC Fortune Medicare”) was incorporated, of which, 34% equity interest in NC Fortune Medicare was held by the Group. NC Fortune

Medicare will then set up a wholly-owned subsidiary in Shanghai (the “Shanghai Subsidiary”) for the development of medicare business in various cities in the PRC. The registered capital of the Shanghai Subsidiary will be RMB1,000,000, which shall be financed by all the shareholders of NC Fortune Medicare in proportion to their respective shareholdings therein. The Shanghai Subsidiary has not been established as at the date of this report. As at 30 June 2017, none of the RMB340,000 (equivalent to approximately HK\$398,000), being the contribution by the Group, has been injected by the Company to the Shanghai Subsidiary through NC Fortune Medicare.

(c) Capital commitments

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|--|--|--|
| Construction design contracts | | |
| for the Luoyang Properties (<i>note 12(a)</i>) | 11,140 | 10,824 |
| Renovation and improvement costs | | |
| for the Guangzhou Properties (<i>note 12(b)</i>) | 193,434 | 192,689 |
| Capital contribution payable to a subsidiary | 17,010 | 7,779 |
| | 221,584 | 211,292 |

20. RELATED PARTIES TRANSACTIONS

Save as those disclosed elsewhere in these consolidation financial statements, the Group had the following material transactions with related parties during the Period:

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Rental expenses paid to related companies | 777 | 1,542 |

21. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period’s presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded a turnover of approximately HK\$18,801,000 and recorded a profit after tax of approximately HK\$711,000 for the six months ended 30 June 2017.

Prospect and Outlook

The Company will develop on cultural and innovative projects in the coming year. We realize that each property project has its own characteristics as residents who are in different living places, of different ages and from different social groups have distinct hobbies and habits, which creates unique cultural features in various projects. Therefore, in respect of the Company's development and taking into account our existing resources and property projects under progress in different regions, we, on one hand, will continue to participate in the property development market, and on the other hand, will integrate cultural features in our property development projects. Our projects are expected to cover all hobbies and living styles of different residents and hence, we will develop our projects with a principle of new city lifestyle in new days, so as to highlight our concept of "New Day•New Life•New City".

We hope our cultural projects, such as providing children's creativity trainings and providing venues for microfilms-shooting, will gear towards the core values of our business, in different aspects from education, health to various life facilities as well as products, which enable us not only to provide commercial or residential zones as a traditional developer, but also to enhance the brand value of the Company.

FINANCIAL REVIEW

During the Period under review, the Group has turnover and net profit for the Period amounted to approximately HK\$18,801,000 and HK\$711,000 respectively, whereas the Group had turnover and net loss for the first half of 2016 was approximately HK\$16,874,000 and HK\$272,000, respectively. Basic earning per share for the period was HK\$0.02 cents (Basic loss per share for six months ended 30 June 2016 was HK\$0.01 cents).

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the Period (six months ended 30 June 2016: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING REQUIREMENTS

As at 30 June 2017, the Group had obligations under hire purchase contract of approximately HK\$15,000 (2016: HK\$184,000).

As at 30 June 2017, the Group's total assets was approximately HK\$1,009,370,000 (2016: approximately HK\$1,034,513,000) and total liabilities were of approximately HK\$387,419,000 (2016: approximately HK\$410,610,000). As at 30 June 2017, the cash and bank balances was approximately HK\$30,429,000 (2016: approximately HK\$70,121,000) and the current ratio (current assets/current liabilities) was 3.43 as at 30 June 2017 (2016: 3.88).

GEARING RATIO

The gearing ratio (net debt/capital and net debt) was 0.30 as at 30 June 2017 (2016: 0.23).

LITIGATION

Details of an outstanding litigation were disclosed in note 13 to this report.

EXCHANGE RISKS

The majority of the Group's operations are located in the PRC and Hong Kong and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

CAPITAL STRUCTURE

There is no change in the capital structure of the Company.

PLEDGE OF ASSETS

As at 30 June 2017, the Group's investment properties located in Guangzhou were pledged to secure for bank borrowings. And the finance lease payable was secured by the leased motor vehicle with a carrying amount of HK\$ Nil (Year ended 31 December 2016: 92,000).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company did not have any significant investments or material acquisitions and disposals for the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2017.

CONTINGENT LIABILITIES

Details of the contingent liabilities was set out in note 17 to this report.

OPERATING LEASE COMMITMENTS

As lessor

The Group leases its investment properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Within one year | 28,583 | 18,479 |
| In the second to fifth years, inclusive | 25,166 | 19,541 |
| | 53,749 | 38,020 |

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2017 (Unaudited) HK\$'000 | 31 December 2016 (Audited) HK\$'000 |
|---|--|--|
| Within one year | 1,436 | 1,563 |
| In the second to fifth years, inclusive | 50 | 702 |
| | 1,486 | 2,265 |

OTHER COMMITMENT

Except for the other commitments as detailed in note 19 to this report, the Group did not have any commitment as at 30 June 2017.

OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended 30 June 2017, the Company has complied with all the code provisions (“Code Provisions”) as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), save for the deviations listed below:

- The Chairman of the Company is also the chief executive officer of the Company, which deviates from Code Provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As the current nature of the Group’s business is not complicated, the Board considers that the current structure is sufficient for monitoring and controlling the operation of the Group. The Company will review the structure from time to time and will make necessary arrangements to observe the provisions of the Listing Rules whenever necessary.
- According to the Articles of Association of the Company, the non-executive directors of the Company are not appointed for specific terms. Thus, they are deviated from Code Provision A.4.1 which stipulates that non-executive directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 which stipulates that all directors appointed to fill a casual vacancy shall hold office only until the next following general meeting and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in view of the fact that non-executive directors are subject to retirement by rotation as stipulated in the Company’s Articles of Association, the Company considers that there are sufficient measures in place to ensure that the corporate governance of the Company are no less exacting than the Code Provisions. In respect of Code Provision A.6.7 of the CG Code, one Executive Director and four Independent Non-executive Directors did not attend the annual general meeting of the Company held on 27 June 2017. The Company will review its Articles of Association from time to time and will make necessary amendments to ensure observance of the provisions of the Listing Rules whenever necessary.

- According to Article 87(1) of the Articles of Association, since the Chairman of the board, whilst holding such office, is not subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year, Code Provision A.4.2 is deviated. The Chairman plays an essential role in the growth and development of the Group. At present, the Chairman’s continuing presence in the board is important to assure sustainable development of the Group. Given the importance of the Chairman’s role, the board considers that the relevant article in the Articles of Association has no material impact on the operation of the Group as a whole.

EMPLOYEES

As at 30 June 2017, the Group has employed about 51 employees in Hong Kong and the PRC. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

Long positions in the underlying shares of the Company

| Name of Director | Capacity | Nature of interests | Number of underlying shares held | Approximate % of shareholding |
|-------------------------|-------------------------------------|----------------------------|---|--------------------------------------|
| Han Junran | Interests of controlled corporation | – | 1,886,662,752 ⁽¹⁾ | 56.88 |

Note:

- (1) Junyi Investments Limited (a company wholly-owned by Mr. Han Junran) held 1,886,662,752 Shares, representing 56.88% of the issued share capital, For the purposes of the SFO, both Junyi Investments Limited and Mr. Han Junran were deemed to be interested in 1,886,662,752 Shares.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 30 June 2017, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long position in the shares of the Company

| Name | Capacity | Number of Shares held | Approximate % of shareholding |
|---|------------------------------------|------------------------------|--------------------------------------|
| Mr. Han Junran | Interest of controlled corporation | 1,886,662,752 ⁽¹⁾ | 56.88 |
| Junyi Investments Limited | Beneficial owner | 1,886,662,752 ⁽¹⁾ | 56.88 |
| Haitong International New Energy VIII Limited | Person having a security interest | 400,000,000 ⁽²⁾ | 12.06 |
| Haitong International Securities Group Limited | Interest of controlled corporation | 400,000,000 ⁽²⁾ | 12.06 |
| Haitong Securities Co., Ltd. | Interest of controlled corporation | 400,000,000 ⁽²⁾ | 12.06 |

Notes:

- (1) Junyi Investments Limited, a company incorporated with limited liability in the British Virgin Islands, is wholly-owned by Mr. Han Junran who is an Executive Director of the Company.
- (2) The security interest of the 400,000,000 Shares is held by Haitong International New Energy VIII Limited, which is an indirect wholly-owned subsidiary of Haitong International Securities Group Limited, which is an indirect subsidiary of Haitong Securities Co., Ltd.

Save as disclosed above, as at 30 June 2017, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had not redeemed any of its shares during the six months ended 30 June 2016. Neither the Company nor its subsidiaries had purchased or sold any of the Company's shares during the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors, the Directors have complied with the Code throughout the six months period ended 30 June 2017.

AUDIT COMMITTEE

The Audit Committee comprises three members who are independent non-executive directors namely Mr. Chan Yiu Tung, Anthony, Mr. Zheng Qing and Mr. Leung Kwai Wah Alex. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and the unaudited interim financial statements for the six months ended 30 June 2017.

By Order of the Board

Han Junran

Chairman

Hong Kong, 11 August 2017