



ART GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

INTERIM REPORT

2017



Corporate Information

BOARD OF DIRECTORS

Mr. Chen Jinyan (*Chairman*)
Mr. Chen Jindong (*Chief Executive Officer*)
Mr. Kwan Chi Fai*
Mr. Lin Ye*
Mr. Yang Zeqiang*
Ms. Chong Sze Pui Joanne*

* *Independent Non-executive Director*

COMPANY SECRETARY

Ms. Yeow Mee Mooi

AUDITOR

Centurion ZD CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1407, 14th Floor, China Merchants Tower
Shun Tak Centre
168 – 200 Connaught Road Central, Hong Kong
Website: <http://artgroup.etnet.com.hk>

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
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

Industrial and Commercial Bank of China
Bank of Communications
Bank of Zhengzhou
Hang Seng Bank

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock code: 565)

Report on Review of Interim Financial Information



中正達會計師事務所有限公司
Centurion ZD CPA Limited
Certified Public Accountants (Practising)

**TO THE BOARD OF DIRECTORS OF
ART GROUP HOLDINGS LIMITED**
錦藝集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 3 to 22 which comprises the condensed consolidated statement of financial position of Art Group Holdings Limited and its subsidiaries as of 31 December 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 Main Board Listing 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 (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Centurion ZD CPA Limited

Certified Public Accountants (Practising)

Unit 1304, 13/F.,
Two Harbourfront,
22 Tak Fung Street,
Hungghom, Hong Kong
23 February 2018

The board of directors (the “Board”) of Art Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2017 (the “Period”), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the corresponding period in 2016 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017

		Six months ended	
	NOTES	31.12.2017 (unaudited) HK\$'000	31.12.2016 (unaudited) HK\$'000
Turnover		96,971	87,059
Cost of sales		<u>(27,957)</u>	<u>(30,158)</u>
Gross profit		69,014	56,901
Other income		5,790	5,587
Administrative expense		(12,210)	(13,492)
Other expenses		(715)	(429)
Finance costs	4	<u>(15,841)</u>	<u>(21,364)</u>
Profit before tax		46,038	27,203
Income tax expense	5	<u>(5,535)</u>	<u>(10)</u>
Profit for the period	6	40,503	27,193
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation		<u>–</u>	<u>(100,512)</u>
Other comprehensive loss for the period (net of tax)		<u>–</u>	<u>(100,512)</u>
Total comprehensive income/(loss) for the period		<u>40,503</u>	<u>(73,319)</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017

		Six months ended	
	NOTES	31.12.2017 (unaudited) HK\$'000	31.12.2016 (unaudited) HK\$'000
Profit for the period attributable to:			
Owners of the Company		28,915	18,955
Non-controlling interests		<u>11,588</u>	<u>8,238</u>
		<u>40,503</u>	<u>27,193</u>
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		28,915	(62,196)
Non-controlling interests		<u>11,588</u>	<u>(11,123)</u>
		<u>40,503</u>	<u>(73,319)</u>
EARNINGS PER SHARE	8		
Basic (<i>HK cents per share</i>)		<u>1.08</u>	<u>0.71^(Note)</u>
Diluted (<i>HK cents per share</i>)		<u>1.07</u>	<u>0.71^(Note)</u>

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

Condensed Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	31.12.2017 (unaudited) HK\$'000	30.6.2017 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	7,158	7,478
Investment properties		2,994,253	2,994,253
Goodwill	10	63,549	63,549
		<u>3,064,960</u>	<u>3,065,280</u>
CURRENT ASSETS			
Trade and other receivables	11	26,837	25,892
Bank balances and cash		30,791	30,459
		<u>57,628</u>	<u>56,351</u>
CURRENT LIABILITIES			
Trade and other payables	12	358,141	358,177
Tax liabilities		8,982	8,281
Secured bank and other borrowings	13	82,759	70,115
		<u>449,882</u>	<u>436,573</u>
NET CURRENT LIABILITIES		<u>(392,254)</u>	<u>(380,222)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,672,706</u>	<u>2,685,058</u>

Condensed Consolidated Statement of Financial Position

At 31 December 2017

	<i>NOTES</i>	31.12.2017 (unaudited) HK\$'000	30.6.2017 (audited) HK\$'000
CAPITAL AND RESERVES			
Share capital	<i>15</i>	26,850	26,850
Share premium and reserves		<u>1,326,799</u>	<u>1,297,884</u>
Equity attributable to owners of the Company		<u>1,353,649</u>	<u>1,324,734</u>
Non-controlling interests		<u>327,465</u>	<u>315,877</u>
Total equity		<u>1,681,114</u>	<u>1,640,611</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		436,498	436,497
Secured bank and other borrowings	<i>13</i>	529,885	582,759
Bonds	<i>14</i>	<u>25,209</u>	<u>25,191</u>
		<u>991,592</u>	<u>1,044,447</u>
		<u>2,672,706</u>	<u>2,685,058</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interest HK\$'000	Total HK\$'000
At 1 July 2016	13,321	271,481	136	(67,122)	2,124	1,052,233	1,272,173	290,422	1,562,595
Profit for the period	-	-	-	-	-	18,955	18,955	8,238	27,193
Other comprehensive loss for the period	-	-	-	(81,151)	-	-	(81,151)	(19,361)	(100,512)
- Exchange difference arising on translation	-	-	-	(81,151)	-	-	(81,151)	(19,361)	(100,512)
Total comprehensive income/(loss) for the period	-	-	-	(81,151)	-	18,955	(62,196)	(11,123)	(73,319)
Issue of shares under bonus issue	13,425	(13,425)	-	-	-	-	-	-	-
Issue of shares under employee share option plan	104	4,887	-	-	(1,549)	-	3,442	-	3,442
At 31 December 2016	26,850	262,943	136	(148,273)	575	1,071,188	1,213,419	279,299	1,492,718
Profit for the period	-	-	-	-	-	72,139	72,139	27,231	99,370
Other comprehensive income for the period	-	-	-	39,176	-	-	39,176	9,347	48,523
- Exchange difference arising on translation	-	-	-	39,176	-	-	39,176	9,347	48,523
Total comprehensive income for the period	-	-	-	39,176	-	72,139	111,315	36,578	147,893
At 30 June 2017	26,850	262,943	136	(109,097)	575	1,143,327	1,324,734	315,877	1,640,611
Profit for the period	-	-	-	-	-	28,915	28,915	11,588	40,503
Total comprehensive income for the period	-	-	-	-	-	28,915	28,915	11,588	40,503
At 31 December 2017	26,850	262,943	136	(109,097)	575	1,172,242	1,353,649	327,465	1,681,114

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

	Six months ended	
	31.12.2017 (unaudited) HK\$'000	31.12.2016 (unaudited) HK\$'000
Net cash generated from operating activities	56,078	348,538
Net cash used in investing activities		
Purchase of property, plant and equipment	(732)	(267)
Addition to investment properties	–	(5,341)
Interest received	26	44
	(706)	(5,564)
Net cash used in financing activities		
Repayments of bank and other borrowings	(40,230)	(315,000)
Proceeds from issue of new shares	–	3,442
Interest paid on bank and other borrowings	(14,810)	(20,335)
	(55,040)	(331,893)
Net increase in cash and cash equivalents	332	11,081
Effect of foreign exchange rate changes	–	(3,040)
Cash and cash equivalents at the beginning of the period	30,459	62,338
Cash and cash equivalents at the end of the period represented by bank balances and cash	30,791	70,379

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKAS 40	Transfer of Investment Properties 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 HKFRS	Annual Improvements to HKFRS 2014-2016 Cycle ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15 and Clarifications to HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HK(IFRIC) 22	Foreign Currency Translation and Advance Consideration ¹

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 Effective for annual periods beginning on or after 1 January 2018 except for HKFRS 12 Amendments which are effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after a date to be determined

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The directors of the Company anticipate that the application of these new or revised standards and amendments will have no material effect on how the results and the financial position of the Group are prepared and presented.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the lease payments received and receivable in the normal course of business, net of related taxes for the period. The Group is engaged in the property operating during the period.

Information reported to the Board of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Therefore, the chief operating decision maker only considers the Group's business from a product perspective, rather than from a geographic perspective. From a product perspective, management assesses the performance from property operating for the periods ended 31 December 2016 and 2017.

The accounting policies of the property operating segment are the same as the Group's accounting policies described in note 3 to the consolidated financial statements of the Company's 2017 annual report. Segment result represents the profit or loss from the segment without allocation of income tax expense and central administration costs.

One tenant contributed to 10 per cent or more of the Group's turnover for the period ended 31 December 2017 (2016: One).

Turnover from major business services:

	Six months ended	
	31.12.2017	31.12.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Rental income from leasing of properties	96,971	87,059

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

The chief operating decision maker assesses the performance of the property operating segment based on sales and net profit.

Six months ended 31 December 2017

	Property operating HK\$'000
Turnover	<u>96,971</u>
Segment result	52,165
Income tax expense	(5,535)
Central administration costs	<u>(6,127)</u>
Profit for the period	<u>40,503</u>
Depreciation	<u>1,053</u>

Property
operating
HK\$'000

Six months ended 31 December 2016

Turnover	<u>87,059</u>
Segment result	34,389
Income tax expense	(10)
Central administration costs	<u>(7,186)</u>
Profit for the period	<u>27,193</u>
Depreciation	<u>1,014</u>

4. FINANCE COSTS

	Six months ended	
	31.12.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (unaudited)
Interest on		
– Bank and other borrowings wholly repayable within five years	–	4,480
– Bank and other borrowings wholly repayable over five years	14,810	15,855
– Bonds	1,031	1,029
	15,841	21,364

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (unaudited)
<i>Income tax recognised in profit and loss</i>		
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")		
– Current income tax	5,535	10

Hong Kong Profits Tax was calculated at 16.5% (1.7.2016 to 31.12.2016: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 31 December 2016 and 2017.

5. INCOME TAX EXPENSE *(Continued)*

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25%.

The Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. No deferred tax has been provided for in the condensed consolidated financial statements in respect of the undistributed profits earned by the Company’s PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2017	31.12.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	1,053	1,018
Bad debts	–	429
Interest income	(26)	(44)
	<hr/>	<hr/>

7. DIVIDEND PAID

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2016: Nil).

8. EARNINGS PER SHARE

	Six months ended	
	31.12.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (unaudited)
EARNINGS PER SHARE		
Basic (<i>HK cents per share</i>)	<u>1.08</u>	<u>0.71</u>
Diluted (<i>HK cents per share</i>)	<u>1.07</u>	<u>0.71</u>

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

	Six months ended	
	31.12.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (unaudited)
Earnings		
Profit for the period attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	<u>28,915</u>	<u>18,955</u>

8. EARNINGS PER SHARE *(Continued)*

	Six months ended	
	31.12.2017	31.12.2016
	'000	'000
		<i>(Note)</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,685,005	2,678,413
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	5,192	6,100
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,690,197	2,684,513

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$732,000 (1.7.2016 to 31.12.2016: HK\$267,000) for purchase costs of furniture, fixtures, office equipment and motor vehicles in order to facilitate the operations of its investment properties.

10. GOODWILL

	HK\$'000
Cost	
At 1 July 2016	<u>63,549</u>
At 31 December 2016, 1 July 2017 and 31 December 2017	<u>63,549</u>

11. TRADE AND OTHER RECEIVABLES

There are no specific credit terms given to the tenants. Monthly rentals in respect of retail properties are payable in advance by tenants in accordance with the leases. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented at the end of the reporting period, which approximated the respective revenue recognition dates:

	31.12.2017 HK\$'000 (unaudited)	30.6.2017 HK\$'000 (audited)
0 – 90 days	8,466	9,690
Over 90 days	55	<u>121</u>
Trade receivables	8,521	9,811
Prepayment and other receivables	18,316	<u>16,081</u>
	26,837	<u>25,892</u>

12. TRADE AND OTHER PAYABLES

	31.12.2017 HK\$'000 (unaudited)	30.6.2017 HK\$'000 (audited)
Received in advance	30,741	26,293
Deposits received from tenants	28,605	25,151
Amount due to a substantial shareholder (<i>Note</i>)	286,035	293,852
Accrued charges and other payables	12,760	12,881
	358,141	358,177

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

13. SECURED BANK AND OTHER BORROWINGS

The Group did not obtain any new borrowings during the period (1.7.2016 to 31.12.2016: Nil). Total repayment of bank and other borrowings during the period was HK\$40,230,000 (1.7.2016 to 31.12.2016: HK\$315,000,000). The loans carried interests at floating rates and are repayable within 7 years.

14. BONDS

On 10 July 2013, the Company issued unlisted and non-transferable bond of HK\$10,000,000 to an independent third party at face value with issuing cost of HK\$120,000. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the seventh anniversary of the date of issue. The bond was initially recognised at HK\$9,862,000 less issuing cost of HK\$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (1.7.2016 to 31.12.2016: 8.33%) per annum.

14. BONDS *(Continued)*

On 13 August 2014, the Company issued two unlisted and non-transferable bonds at face value of HK\$5,340,000 and HK\$10,000,000 to two independent third parties. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK\$15,309,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.05% (1.7.2016 to 31.12.2016: 8.05%) per annum.

During the period, interests on the bonds were owed by the Company at the total consideration of approximately HK\$1,013,000 (1.7.2016 to 31.12.2016: HK\$1,013,000).

The movements of the liability component of the Group's bonds during the six months ended 31 December 2017 are as follows:

	31.12.2017 HK\$'000 (unaudited)
Liability component at 30 June 2016 (audited)	25,149
Effective interest charged for the year	2,069
Coupon interest paid/payable	(2,027)
	<hr/>
Liability component at 30 June 2017 (audited)	25,191
Effective interest charged for the period	1,031
Coupon interest paid/payable	(1,013)
	<hr/>
Liability component at 31 December 2017	25,209
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15. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each, at 1 July 2016	2,000,000,000	20,000
Increase in authorised share capital (<i>Note 1</i>)	3,000,000,000	30,000
	<u>5,000,000,000</u>	<u>50,000</u>
Ordinary shares of HK\$0.01 each, at 31 December 2016 and 31 December 2017	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each, at 1 July 2016	1,332,102,583	13,321
Issue of bonus shares (<i>Note 2</i>)	1,342,502,580	13,425
Exercise of share options	10,400,000	104
	<u>2,685,005,163</u>	<u>26,850</u>
At 31 December 2016 and 31 December 2017	2,685,005,163	26,850

Note 1: Ordinary resolution has been passed at extraordinary general meeting held on 16 November 2016 to increase the authorized share capital of the Company by the creation of an additional 3,000,000,000 new shares at a par value of HK\$0.01 each.

Note 2: On 28 November 2016, an aggregate of 1,342,502,580 shares were issued on the basis of ten new shares credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 24 November 2016.

16. SHARE-BASED PAYMENTS

The Company adopts a share option scheme for eligible participants, including directors and employees of the Group and other participants. Details of the share options granted to the directors and employees of the Group outstanding during the period are as follows:

	Number of share options	
	2017	2016
Outstanding at 1 July	7,960,000	14,380,000
Granted during the period	–	–
Effect of bonus shares issued (<i>Note</i>)	–	3,980,000
Exercised during the period	–	(10,400,000)
	<u>7,960,000</u>	<u>7,960,000</u>
Outstanding at 31 December	7,960,000	7,960,000

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

17. COMMITMENTS

Operating Lease Commitment

The Group as lessor

Property rental income, management fee income and operating service income earned during the period was HK\$96,971,000 (1.7.2016 to 31.12.2016: HK\$87,059,000). All properties have committed tenants ranging from the next 1 to 16 years and do not include an extension option.

17. COMMITMENTS *(Continued)*

Operating Lease Commitment *(Continued)*

The Group as lessor (Continued)

At 31 December 2017, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2017 HK\$'000 (unaudited)	30.6.2017 HK\$'000 (audited)
Within one year	169,253	165,484
In the second to fifth years inclusive	484,772	459,493
Over five years	628,862	672,633
	<u>1,282,887</u>	<u>1,297,610</u>

The Group as lessee

At 31 December 2017, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	31.12.2017 HK\$'000 (unaudited)	30.6.2017 HK\$'000 (audited)
Within one year	18,940	17,690
In the second to fifth years inclusive	73,755	26,717
Over five years	115,140	—
	<u>207,835</u>	<u>44,407</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for a term ranging from 2 to 11 years with fixed rentals. Most of the operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

18. RELATED PARTY TRANSACTIONS

(a) The remuneration of key management during the period was as follows:

	Six months ended	
	31.12.2017	31.12.2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	1,986	1,936
Retirement benefit scheme contributions	26	27
	<u>2,012</u>	<u>1,963</u>

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

(b) As at 31 December 2017, the Group had the following balance with related party:

	31.12.2017	30.6.2017
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Amount due to a substantial shareholder (<i>Note</i>)	<u>286,035</u>	<u>293,852</u>

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

19. EVENT AFTER THE REPORTING PERIOD

There are no post balance sheet events that require to be reported.

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

The Group was engaged in the property operating segment during the Period through holding 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) (“Jiachao”) by the Company’s indirect wholly-owned subsidiary registered in the PRC. The major asset of Jiachao is a shopping mall situated in Zhengzhou City, Henan Province, the PRC (the “Jiachao’s Shopping Mall”). The Group owns the Jiachao’s Shopping Mall and generates revenue from the monthly incomes of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 16 years. The Jiachao’s Shopping Mall is a one-stop shopping paradise with approximately 160 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid’s paradise and restaurants. All shop units in the Jiachao’s Shopping Mall were rented out as at 31 December 2017.

Furthermore, the Group diversified its operations into different areas of the property operating segment in order to explore future prospects and develop relevant markets through holding the entire equity interests in 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) (“Jiacong”) by an indirect wholly-owned PRC subsidiary of the Company. The major asset held by Jiacong is 164 shops in a giant theme shopping mall (the “Jiacong’s Shops”) situated in Zhengzhou City, Henan Province, the PRC. As at 31 December 2017, all of the Jiacong’s Shops had been rented out for a term of more than three years.

In addition, Jiachao leased from a real estate developer shop units in a shopping mall (the “Zone C Shopping Mall”) for a term of two years ending by the end of 2019. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao’s Shopping Mall. Jiachao promoted and further rented out the Zone C Shopping Mall to independent tenants. Jiachao has an advantage of having an existing team of caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall is minimal to Jiachao while it is earning considerable amount of rental income from renting out the Zone C Shopping Mall to tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The management of both the Jiachao’s Shopping Mall and the Zone C Shopping Mall by Jiachao will bring positive benefits and synergy effects on the customer flow and the tenant grade to the Group, which eventually contributes to turnover and profit margin of the property operating business of the Group. As at 31 December 2017, all the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 140 tenants including a cinema, an aquarium, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid’s paradise and restaurants.

Turnover

For the Period, the Group recorded a turnover of approximately HK\$96,971,000 (2016: HK\$87,059,000), approximately 11.4% more than that in the corresponding period in 2016. Since the Group holds the Jiachao’s Shopping Mall and the Jiacong’s Shops as investment properties during the Period, turnover of the Group included the monthly incomes of rental, management and operating services received and receivable from the tenants. Turnover of the Group also included the incomes generated from renting out the Zone C Shopping Mall to tenants. Increase in turnover during the Period was due to the increase in rentals of the Jiachao’s Shopping Mall, the Jiacong’s Shops and the Zone C Shopping Mall.

Gross Profit

The gross profit margin was approximately 71.2% for the Period (2016: 65.4%). High gross profit margin was due to its simple costs of sales based on the business nature, such as electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. Gross profit margin increased during the Period because of the increase in rentals of the Jiachao’s Shopping Mall, the Jiacong’s Shops and the Zone C Shopping Mall and the decrease of costs of sales as a result of the implementation of some financial control policies.

Profit for the Period

The Group's profit generated for the Period was approximately HK\$40,503,000 (2016: HK\$27,193,000). The profit margin was 41.8% for the Period (2016: 31.2%). As a consequence of (1) an increase in rentals of the Jiachao's Shopping Mall, the Jiacong's Shops and the Zone C Shopping Mall, (2) a decrease in cost of sales and administrative expenses due to the implementation of some financial control policies and (3) a decrease in finance costs owing to the repayment of a borrowing with high interest rate during the six months ended 31 December 2016, there was eventually an increase in both profit for the Period and the profit margin.

Other Income

Other income for the Period was approximately HK\$5,790,000 (2016: HK\$5,587,000), which was other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants, which were maintained at the similar levels during the six months ended 31 December 2017 and 2016, respectively.

Expenses

Administrative expenses amounted to approximately HK\$12,210,000 (2016: HK\$13,492,000), representing approximately 12.6% (2016: 15.5%) of turnover for the Period. Administrative expenses decreased by approximately 9.5% when compared with that of the corresponding period in 2016 because the Group reduced the expenditures through the implementation of some financial control policies during the Period while there were professional fees incurred for bonus issue and change of the Company's name during the period ended 31 December 2016.

Other expenses amounted to approximately HK\$715,000 (2016: HK\$429,000), representing approximately 0.7% (2016: 0.5%) of turnover for the Period. The increase was due to the exchange differences arisen from the slight appreciation of RMB during the Period.

Finance costs amounted to approximately HK\$15,841,000 (2016: HK\$21,364,000), representing approximately 16.3% (2016: 24.5%) of turnover for the Period. The decrease was due to the repayment of a borrowing with high interest rate during the six months ended 31 December 2016.

Dividend

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

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximize the shareholders' return. By doing this, the Group is engaged in property operating business and owns two properties for rental purpose, namely the Jiachao's Shopping Mall and the Jiacong's Shops. Both properties are situated in Zhengzhou City, Henan Province, the PRC.

The Group's long-term plans are to upgrade its tenants of the Jiachao's Shopping Mall by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group conducts large scale marketing and promotion activities so that a stable and constant stream of rental income and fairly rigid cash flow can be continuously generated to the Group. The Jiacong's Shops are in the giant theme shopping mall selling textile materials, accessories and products. The extensive knowledge, experience and network of the directors of the Company in the textile business enables the Group to grasp decisive opportunities in the promotion of renting these shops; hence, more suitable and profitable textile business operators are identified as target tenants of the Jiacong's Shops.

Apart from investing into the Jiachao's Shopping Mall and the Jiacong's Shops, the Group provides rental, management and operating services by leasing the Zone C Shopping Mall from its real estate developer in order to expand the source of income through its present various resources. During the Period, an indirect wholly-owned PRC subsidiary of the Company entered into a lease for a shopping mall (the "Longwu Shopping Mall") located in the countryside of Zhengzhou City, Longwu Town, for a term of 10 years. The Longwu Shopping Mall is still under construction and expected to be completed in the mid of 2018, which is the commencement date of the lease. The Longwu Shopping Mall is targeted to be leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods including an aquarium, fashion, lifestyle, premium supermarket and food and beverages restaurants. More caliber and experienced management and staff will be recruited to operate the Longwu Shopping Mall. Since the Longwu Shopping Mall is expected to be the largest commercial complex in that area after its erection with comprehensive and coherent facilities, such as government bodies, educational institutions and hospitals, the population is expected to surge as a result of the development of residencies nearby in next few years. Besides, travelling time from the Longwu Shopping Mall to either Zhengzhou City or Xinzheng International Airport is approximately 30 minutes, which accelerates the growth of the whole district.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of property operating markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of subsidiaries. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating markets. The Jiachao's Shopping Mall and the Jiacong's Shops are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative that advocated by the PRC's government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximized in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had net current liabilities and total assets less current liabilities of approximately HK\$392,254,000 (30 June 2017: HK\$380,222,000) and HK\$2,672,706,000 (30 June 2017: HK\$2,685,058,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and loans. As at 31 December 2017, the Group had cash and bank deposits of approximately HK\$30,791,000 (30 June 2017: HK\$30,459,000). The current ratio of the Group was approximately 12.8% (30 June 2017: 12.9%).

Total equity of the Group as at 31 December 2017 was approximately HK\$1,681,114,000 (30 June 2017: HK\$1,640,611,000). As at 30 June 2017, the total borrowings of the Group, repayable from within 12 months to seven years from the end of the reporting period, denominated in RMB533,000,000 were equivalent to approximately HK\$612,644,000 (30 June 2017: HK\$652,874,000) and three bonds measured at amortised cost was HK\$25,209,000 (30 June 2017: HK\$25,191,000). As at 31 December 2017, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 37.9% (30 June 2017: 41.3%).

The Group has maintained and will continue to maintain a reasonable amount of working capital on hand in order to maintain its financial position, and sufficient resources are expected to be generated from its business operations and financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 31 December 2017, the total borrowing facilities of the Group amounted to approximately HK\$612,644,000 (30 June 2017: HK\$652,874,000), of which, all facilities (30 June 2017: all facilities) was utilised. In addition, three bonds (30 June 2017: three bonds) amounted to approximately HK\$25,209,000 in aggregate (30 June 2017: HK\$25,191,000), measured at amortised cost, were arranged with three independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

CAPITAL STRUCTURE

As at 31 December 2017, the share capital of the Company comprises ordinary shares only.

On the capital structure of the Company, the authorised share capital of the Company was increased from HK\$20,000,000 divided into 2,000,000,000 shares to HK\$50,000,000 divided into 5,000,000,000 shares by the creation of an addition of 3,000,000,000 shares of HK\$0.01 par value each in the capital of the Company during the six months ended 31 December 2016.

During the six months ended 31 December 2016, the Company also completed a bonus issue. As a result, a total number of 1,342,502,580 new shares were issued and allotted. Details of which are set out in note 25 to the consolidated financial statements of the Group in the Company's 2017 annual report, the circular of the Company dated 1 November 2016, and the announcements of the Company dated 16 November 2016 and 28 November 2016, respectively.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the Period, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 31 December 2017, certain investment properties of the Group with aggregate carrying values of approximately HK\$1,196,738,000 (30 June 2017: HK\$1,196,738,000) were pledged to a bank to secure banking facilities granted to the Group.

STAFF POLICY

The Group had 169 employees altogether in the PRC and Hong Kong as at 31 December 2017. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Four independent non-executive directors are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) *Ordinary shares of HK\$0.01 each of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Jindong	Held by his spouse <i>(Note 1)</i>	369,100,000	13.75%
Mr. Chen Jinyan	Held by controlled corporation <i>(Note 2)</i>	593,480,000	22.10%

Notes:

- (1) Among the 369,100,000 shares, 324,340,000 shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the “BVI”), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Jindong, Ms. Lin Lin and 44,760,000 shares are held by Ms. Lin Lin. Mr. Chen Jindong is deemed to be interested in 369,100,000 shares of the Company.
- (2) The shares are held by Fully Chain Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan. Mr. Chen Jindong is the younger brother of Mr. Chen Jinyan.

(b) Share options

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Chen Jinyan	Beneficial owner	3,800,000	3,800,000
Mr. Lin Ye	Beneficial owner	2,080,000	2,080,000
Mr. Yang Zeqiang	Beneficial owner	2,080,000	2,080,000

Other than as disclosed above, none of the directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December 2017.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed “Share options” above, at no time during the Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed “Directors’ interests in shares and underlying shares” above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Lin Lin	Beneficial owner and interest in a controlled corporation	369,100,000	13.75%
Mr. Chen Jinqing	Beneficial owner and interest in a controlled corporation <i>(Note)</i>	166,000,000	6.18%
Dresdner VPV N. V.	Investment manager	139,755,200	5.21%

Note: The shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Jindong.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2017.

SHARE OPTIONS

The Company's share option scheme (the "Share Option Scheme") became effective on 22 November 2013. Particulars of the Share Option Scheme are set out in note 27 to the consolidated financial statements of the Company's 2017 annual report. At the annual general meeting of the Company held on 28 November 2017 (the "AGM"), the shareholders of the Company approved the refreshment of the scheme mandate limit for the Share Option Scheme to 10% of the shares in issue as at the date of the AGM (the "Refreshed Limit"). Under the Refreshed Limit, the Company is allowed to grant share options for subscription up to 268,500,516 shares.

The following table disclosed movements in the Company's share options during the Period:

Grantee	Date of grant	Exercise period	Exercise Price HK\$	Outstanding at 1.7.2017	Granted during the Period	Exercised during the Period	Outstanding at 31.12.2017
Directors							
Mr. Chen Jinyan	10.7.2008	1.8.2008 to 31.7.2018	0.179	3,800,000	-	-	3,800,000
Mr. Lin Ye	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	-	-	2,080,000
Mr. Yang Zeqiang	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	-	-	2,080,000
Granted Total				<u>7,960,000</u>	<u>-</u>	<u>-</u>	<u>7,960,000</u>

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the code of conduct and the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned with the provision of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process, risk management and internal controls of the Group. The audit committee comprised four members, all being independent non-executive directors.

During the Period, the audit committee reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the Period and discussed auditing, risk management, internal control and financial reporting matters, such as the review of the interim report with the management.

By order of the Board

Chen Jinyan

Chairman

Hong Kong

23 February 2018