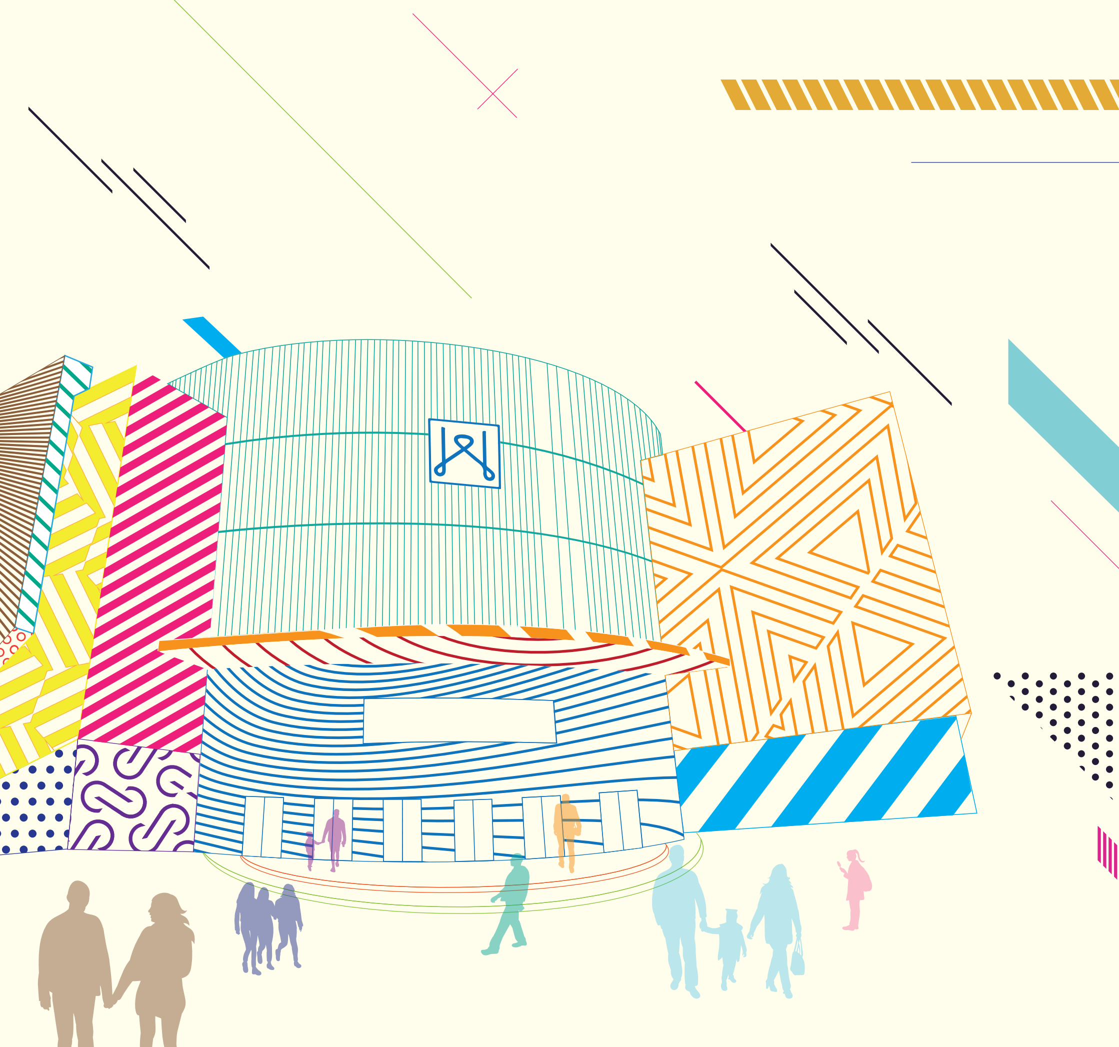
ART GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

INTERIM REPORT 2018



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
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REGISTERED OFFICE
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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
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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 30 which comprises the condensed consolidated statement of financial position of Art Group Holdings Limited and its subsidiaries as of 31 December 2018 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 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 "HKICPA"). 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 HKICPA. 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,
Hunghom, Hong Kong
22 February 2019

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 2018 (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 2017 are as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2018

		Six months ended	
		31.12.2018	31.12.2017
		(unaudited)	(unaudited)
	NOTES	**HK$'000**	HK$'000
Turnover	*3*	**91,381**	96,971
Cost of sales		**(30,140)**	(27,957)
Gross profit		**61,241**	69,014
Other income		**7,996**	5,790
Administrative expenses		**(12,973)**	(12,210)
Other expenses		**–**	(715)
Finance costs	*4*	**(15,083)**	(15,841)
Profit before tax		**41,181**	46,038
Income tax expense	*5*	**(8,235)**	(5,535)
Profit for the period	*6*	**32,946**	40,503
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**(83,350)**	–
Other comprehensive loss for the period (net of tax)		**(83,350)**	–
Total comprehensive (loss)/income for the period		**(50,404)**	40,503

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2018

	NOTES	Six months ended 31.12.2018 (unaudited) HK$'000	Six months ended 31.12.2017 (unaudited) HK$'000
Profit for the period attributable to:			
Owners of the Company		**23,452**	28,915
Non-controlling interests		**9,494**	11,588
		32,946	40,503
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		**(43,000)**	28,915
Non-controlling interests		**(7,404)**	11,588
		(50,404)	40,503
EARNINGS PER SHARE	*8*		
Basic *(HK cents per share)*		**0.87**	1.08
Diluted *(HK cents per share)*		**0.87**	1.07

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

Condensed Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	31.12.2018 (unaudited) HK$'000	30.6.2018 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	6,160	6,757
Investment properties		3,062,500	3,208,333
Goodwill	10	63,549	63,549
		3,132,209	3,278,639
CURRENT ASSETS			
Trade and other receivables	11	18,654	20,016
Bank balances and cash		43,913	18,121
		62,567	38,137
CURRENT LIABILITIES			
Trade and other payables	12	361,166	342,495
Tax liabilities		1,250	836
Secured bank and other borrowings	13	85,227	85,714
		447,643	429,045
NET CURRENT LIABILITIES		(385,076)	(390,908)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,747,133	2,887,731

Condensed Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	31.12.2018 (unaudited) HK$'000	30.6.2018 (audited) HK$'000
CAPITAL AND RESERVES			
Share capital	15	**26,888**	26,888
Share premium and reserves		**1,422,873**	1,465,873
Equity attributable to owners of the Company		**1,449,761**	1,492,761
Non-controlling interests		**364,350**	371,754
Total equity		**1,814,111**	1,864,515
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**459,137**	480,122
Secured bank and other borrowings	13	**438,636**	517,857
Bonds	14	**35,249**	25,237
		933,022	1,023,216
		2,747,133	2,887,731

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

Condensed Consolidated Statement of Changes In Equity

For the six months ended 31 December 2018

	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 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
Profit for the period	–	–	–	–	–	38,684	38,684	33,008	71,692
Other comprehensive income for the period – Exchange difference arising on translation	–	–	–	45,726	–	–	45,726	11,281	57,007
Total comprehensive income for the period	–	–	–	45,726	–	38,684	84,410	44,289	128,699
Issue of shares under employee share option plan	38	907	–	–	(265)	–	680	–	680
Recognition of equity-settled share-based payment expenses	–	–	–	–	54,022	–	54,022	–	54,022
At 30 June 2018 *(Note)*	26,888	263,850	136	(63,371)	54,332	1,210,926	1,492,761	371,754	1,864,515
Impact on initial application of HKFRS 9	–	–	–	–	–	–	–	–	–
Adjusted balance at 1 July 2018	26,888	263,850	136	(63,371)	54,332	1,210,926	1,492,761	371,754	1,864,515
Profit for the period	–	–	–	–	–	23,452	23,452	9,494	32,946
Other comprehensive loss for the period – Exchange difference arising on translation	–	–	–	(66,452)	–	–	(66,452)	(16,898)	(83,350)
Total comprehensive income/(loss) for the period	–	–	–	(66,452)	–	23,452	(43,000)	(7,404)	(50,404)
At 31 December 2018	26,888	263,850	136	(129,823)	54,332	1,234,378	1,449,761	364,350	1,814,111

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2018

	Six months ended	
	31.12.2018	31.12.2017
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Net cash generated from operating activities	**83,814**	56,078
Net cash used in investing activities		
Purchase of property, plant and equipment	**(1,234)**	(732)
Interest received	**25**	26
	(1,209)	(706)
Net cash used in financing activities		
Repayments of bank and other borrowings	**(52,273)**	(40,230)
Proceeds from issue of bond	**10,000**	–
Interest paid on bank and other borrowings	**(13,755)**	(14,810)
	(56,028)	(55,040)
Net increase in cash and cash equivalents	**26,577**	332
Effect of foreign exchange rate changes	**(785)**	–
Cash and cash equivalents at the beginning of the period	**18,121**	30,459
Cash and cash equivalents at the end of the period represented by bank balances and cash	**43,913**	30,791

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2018

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 except for investment property and financial instruments that are measured at fair values at the end of the reporting period.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases within the scope of HKAS 17 Leases.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 July 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

The Group recognises revenue from the following major sources:

– Rental income (not within the scope of HKFRS 15); and

– Property management fee income and other related services (within the scope of HKFRS 15).

The revenue of the Group from provision of property management services are recognised over time. As the tenants simultaneously receives and consumes the benefits provided by the Group's performance, the revenue is recognised over time when the performance obligations are satisfied.

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue from provision of services.

The following table summaries the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 1 July 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Current liabilities	**Carrying amounts previously reported at 30 June 2018**	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 July 2018**
	HK$'000	HK$'000	HK$'000
Receipts in advance *(Note)*	29,535	(21,490)	8,045
Contract liabilities *(Note)*	–	21,490	21,490

Note: As at 1 July 2018, cash received in advance of HK$21,490,000 primarily in respect of property management services previously included in "receipts in advance" were reclassified to contract liabilities.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Current liabilities	**Amounts without application of HKFRS 15**	**Reclassification**	**As reported**
	HK$'000	HK$'000	HK$'000
Receipts in advance	29,781	(21,933)	7,848
Contract liabilities	–	21,933	21,933

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

During the current interim period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018, if any, are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

– the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date.

The measurement categories for all financial liabilities remain the same.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Financial assets at fair value through profit or loss ("FVTPL") *(Continued)*

The carrying amounts for all financial liabilities at 1 July 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 July 2018.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor; and

– an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Significant increase in credit risk *(Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Measurement and recognition of ECL *(Continued)*

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case, interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

As at 1 July 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The amount of the loss allowance as at 1 July 2018 and 31 December 2018 were insignificant to the condensed consolidated financial statements of the Group.

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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 segment for the periods ended 31 December 2017 and 2018.

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 2018 annual report. Segment result represents the profit or loss from the segment without allocation of income tax expense and central administration costs.

One single tenant contributed to 10 per cent or more of the Group's turnover for the period ended 31 December 2018 (2017: One). The total amount of turnover from this tenant was HK$14,393,000 (2017: HK$14,859,000).

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Disaggregation of revenue is analysed as follows:

	Six months ended	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Turnover from major business services:		
Revenue within the scope of HKAS 17		
Rental income from leasing of properties	**36,294**	44,087
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**53,813**	46,656
Property management – other related services	**1,274**	6,228
	55,087	52,884
	91,381	96,971
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**53,813**	46,656
Property management – other related services	**1,274**	6,228
	55,087	52,884

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.

	Property operating HK$'000
Six months ended 31 December 2018	
Turnover	**91,381**
Segment result	**47,662**
Income tax expense	**(8,235)**
Central administration costs	**(6,481)**
Profit for the period	**32,946**
Depreciation	**1,525**

	Property operating HK$'000
Six months ended 31 December 2017	
Turnover	96,971
Segment result	52,165
Income tax expense	(5,535)
Central administration costs	(6,127)
Profit for the period	40,503
Depreciation	1,053

4. FINANCE COSTS

	Six months ended	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interest on		
– Bank and other borrowings wholly repayable within five years	**–**	–
– Bank and other borrowings wholly repayable over five years	**13,755**	14,810
– Bonds	**1,328**	1,031
	15,083	15,841

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Income tax recognised in profit and loss		
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")		
– Current income tax	**7,397**	5,535
Deferred tax	**838**	–
	8,235	5,535

Hong Kong Profits Tax was calculated at 16.5% (1.7.2017 to 31.12.2017: 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 2017 and 2018.

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%.

Deferred tax of HK$838,000 (1.7.2017 to 31.12.2017: Nil) 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	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**1,525**	1,053
Interest income	**(25)**	(26)

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 (2017: Nil).

8. EARNINGS PER SHARE

	Six months ended	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
EARNINGS PER SHARE		
Basic *(HK cents per share)*	**0.87**	1.08
Diluted *(HK cents per share)*	**0.87**	1.07

8. EARNINGS PER SHARE *(Continued)*

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	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(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	**23,452**	28,915

	Six months ended	
	31.12.2018	31.12.2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,688,805**	2,685,005
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**1,736**	5,192
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,690,541**	2,690,197

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$1,234,000 (1.7.2017 to 31.12.2017: HK$732,000) 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 2017	63,549
At 31 December 2017, 1 July 2018 and 31 December 2018	63,549

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 trade receivables are generally fully covered by the rental deposits from corresponding tenants. 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:

	31.12.2018 HK$'000 (unaudited)	30.6.2018 HK$'000 (audited)
0 – 60 days	**2,586**	3,516
61 – 90 days	**18**	26
Over 90 days	**30**	174
Trade receivables	**2,634**	3,716
Prepayment and other receivables	**16,020**	16,300
	18,654	20,016

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover potential exposure to credit risk, the allowance for expected credit losses is insignificant.

12. TRADE AND OTHER PAYABLES

	31.12.2018 HK$'000 (unaudited)	30.6.2018 HK$'000 (audited)
Receipts in advance	**7,848**	29,535
Contract liabilities	**21,933**	–
Deposits received from tenants	**31,572**	31,203
Amount due to a substantial shareholder *(Note)*	**288,263**	264,537
Accrued charges and other payables	**11,550**	17,220
	361,166	342,495

Note: 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 (1.7.2017 to 31.12.2017: Nil). Total repayment of bank and other borrowings during the period was HK$52,273,000 (1.7.2017 to 31.12.2017: HK$40,230,000). The loans carried interests at floating rates and are repayable within 6 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% (1.7.2017 to 31.12.2017: 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% (1.7.2017 to 31.12.2017: 8.05%) per annum.

On 8 August 2018 and 29 August 2018, the Company issued two unlisted and non-transferable bonds at face value of HK$7,000,000 and HK$3,000,000 to an independent third party. 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 recongised at HK$10,004,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.00% (1.7.2017 to 31.12.2017: Nil) per annum.

During the period, interests on the bonds were owned by the Company at the total consideration of approximately HK$1,320,000 (1.7.2017 to 31.12.2017: HK$1,013,000).

The movements of the liability component of the Group's bonds during the six months ended 31 December 2018 are as follows:

	31.12.2018 HK$'000 (unaudited)
Liability component at 30 June 2017 (audited)	**25,191**
Effective interest charged for the year	**2,073**
Coupon interest paid/payable	**(2,027)**
Liability component at 30 June 2018 (audited)	**25,237**
Issue of bonds at fair value	**10,004**
Effective interest charged for the period	**1,328**
Coupon interest paid/payable	**(1,320)**
Liability component at 31 December 2018	**35,249**

15. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.01 each, at 1 July 2017, 31 December 2017 and 31 December 2018	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each, at 1 July 2017 and 31 December 2017	2,685,005,163	26,850
Exercise of share options	3,800,000	38
At 31 December 2018	2,688,805,163	26,888

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	
	2018 **'000**	2017 '000
Outstanding at 1 July	**272,660**	7,960
Granted during the period	**–**	–
Exercised during the period	**–**	–
Outstanding at 31 December	**272,660**	7,960

17. COMMITMENTS

Operating Lease Commitment

The Group as lessor

Property rental income, management fee income and operating service income earned during the period were HK$91,381,000 (1.7.2017 to 31.12.2017: HK$96,971,000). All properties have committed tenants ranging from the next 1 to 15 years and do not include an extension option.

At 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2018 HK$'000 (unaudited)	30.6.2018 HK$'000 (audited)
Within one year	**151,501**	156,290
In the second to fifth years inclusive	**386,063**	419,573
Over five years	**384,769**	430,920
	922,333	1,006,783

The Group as lessee

At 31 December 2018, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	31.12.2018 HK$'000 (unaudited)	30.6.2018 HK$'000 (audited)
Within one year	**18,491**	19,575
In the second to fifth years inclusive	**51**	9,594
Over five years	**–**	–
	18,542	29,169

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for a term over 1 year 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	
	31.12.2018	31.12.2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short-term benefits	**1,986**	1,986
Retirement benefit scheme contributions	**18**	26
	2,004	2,012

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 2018, the Group had the following balance with related party:

	31.12.2018	30.6.2018
	HK$'000	HK$'000
	(unaudited)	(audited)
Amount due to a substantial shareholder *(Note)*	**288,263**	264,537

Note: 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 income of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 15 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with over 146 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 2018.

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 2018, all of the Jiacong's Shops had been rented out for a term of over two 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 one year 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 calibered 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 2018, 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 134 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

On 31 May 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its subsidiaries, Worthmore Ventures Limited ("Worthmore"), Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.) (collectively referred to as the "Disposal Group") to an independent third party (the "Purchaser"). The intended principal activity of the Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the "Longwu Shopping Mall"), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the Disposal Group since the lease signed in July 2017. However, during the year ended 30 June 2018, the real estate developer of the Longwu Shopping Mall decided to transfer its title and interests in the Longwu Shopping Mall to the Purchaser. As a result of the negotiations among the real estate developer, the Purchaser and the Group, it is agreed that the Purchaser acquired the entire issued share capital of Worthmore at a consideration of US$1.00 (equivalent to approximately HK$7.80). The consideration was determined after arm's length negotiations with reference to (i) the net liabilities value of the Disposal Group of approximately HK$1,697,000 as at 31 May 2018; and (ii) the Purchaser agreed to settle the outstanding liabilities owed by the Disposal Group to the Group in the aggregate amount of approximately HK$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

Turnover

For the Period, the Group recorded a turnover of approximately HK$91,381,000 (2017: approximately HK$96,971,000), approximately 5.8% less than that in the corresponding period in 2017. 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. Decrease in turnover during the Period was because the advertisement boards outside the Jiachao's Shopping Mall were not rented out during the Period.

Gross Profit

The gross profit margin was approximately 67.0% for the Period (2017: approximately 71.2%). Relatively 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 decreased during the Period because of (1) an increase in the electricity charges by aiming at providing a more comfortable shopping environment to customers; (2) an increase in repair and maintenance fees of the Jiachao's Shopping Mall and the Zone C Shopping Mall; and (3) an increase of the rent of the Zone C Shopping Mall.

Profit for the Period

The Group's profit generated for the Period was approximately HK$32,946,000 (2017: approximately HK$40,503,000). The net profit margin was approximately 36.1% for the Period (2017: approximately 41.8%). Both the profit for the Period and the net profit margin reduced in certain extent because of (1) no renting out of the advertisement boards outside the Jiachao's Shopping Mall; (2) an increase in the electricity charges by aiming at providing a more comfortable shopping environment to customers; (3) an increase in repair and maintenance fees of the Jiachao's Shopping Mall and the Zone C Shopping Mall; and (4) an increase of the rent of the Zone C Shopping Mall. As one fell, another rose, profit for the Period was diminished.

Other Income

Other income for the Period was approximately HK$7,996,000 (2017: approximately HK$5,790,000), which was other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Other income increased by approximately 38.1% because the tenants consumed more electricity during the Period while relevant payments of such usage made by the Group were adjusted downwards by the electricity company, accordingly, the net receipts of electricity from tenants increased.

Expenses

Administrative expenses amounted to approximately HK$12,973,000 (2017: approximately HK$12,210,000), representing approximately 14.2% (2017: approximately 12.6%) of turnover for the Period. Administrative expenses increased by approximately 6.2% because there was an increment of salary for the staff of the Group since the beginning of the Period.

No other expenses were incurred during the Period while other expenses amounted to approximately HK$715,000, representing approximately 0.7% of turnover for the period ended 31 December 2017. The decrease was due to the exchange differences arisen from the slight appreciation of RMB during the period ended 31 December 2017.

Finance costs amounted to approximately HK$15,083,000 (2017: approximately HK$15,841,000), representing approximately 16.5% (2017: approximately 16.3%) of turnover for the Period. The decrease was due to regular repayments of the principal of bank loans during the Period; hence, the interest on bank loans throughout the Period continued to reduce.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2017: 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 purposes, 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 the 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 age groups and backgrounds. The Group also aims at upgrading the service quality of the property operating business. To achieve these aims, the Group conducts large scale marketing and promotion activities and employs talented and capable management and staff, so that a stable and constant stream of rental income and fairly consistent 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 Group 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. Though, during the year ended 30 June 2018, the Group disposed of the Disposal Group due to the change in the plan of the real estate developer of the Longwu Shopping Mall, this did not have material impact on the Group's development of its property operating business, i.e. the provision of rental, management and operating services to properties. The directors of the Group are of the view that the disposal will not have a material adverse impact on the Group's financial position because the Disposal Group had only done some preliminary promotional preparation work during the year ended 30 June 2018.

During the Period, the global economic conditions remained unstable and challenges continued to cloud the whole world economy. The recent Sino-US trade dispute has no direct impact as the Group's principal business activities are not related to trading between the two countries.

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 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 and to explore the new possibilities in other 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 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 maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had net current liabilities and total assets less current liabilities of approximately HK$385,076,000 (30 June 2018: approximately HK$390,908,000) and approximately HK$2,747,133,000 (30 June 2018: approximately HK$2,887,731,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank loans. As at 31 December 2018, the Group had cash and bank deposits of approximately HK$43,913,000 (30 June 2018: approximately HK$18,121,000). The current ratio of the Group was approximately 14.0% (30 June 2018: approximately 8.9%).

Total equity of the Group as at 31 December 2018 was approximately HK$1,814,111,000 (30 June 2018: approximately HK$1,864,515,000). As at 31 December 2018, the total borrowings of the Group, repayable from within 12 months to nearly six years from the end of the reporting period, denominated in RMB461,000,000 were equivalent to approximately HK$523,863,000 (30 June 2018: approximately HK$603,571,000) and five bonds (30 June 2018: three bonds) measured at amortised cost was approximately HK$35,249,000 (30 June 2018: approximately HK$25,237,000). As at 31 December 2018, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 30.8% (30 June 2018: approximately 33.7%).

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 2018, the total borrowing facilities of the Group amounted to approximately HK$523,863,000 (30 June 2018: approximately HK$603,571,000), of which, all facilities (30 June 2018: all facilities) was utilised. In addition, five bonds (30 June 2018: three bonds) amounted to approximately HK$35,249,000 in aggregate (30 June 2018: approximately HK$25,237,000), measured at amortised cost, were arranged with four (30 June 2018: 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 2018, the share capital of the Company comprises ordinary shares only.

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 2018, certain investment properties of the Group with aggregate carrying values of approximately HK$1,227,562,000 (30 June 2018: approximately HK$1,286,017,000) were pledged to a bank to secure banking facilities granted to the Group.

STAFF POLICY

The Group had 161 employees altogether in the PRC and Hong Kong as at 31 December 2018. 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 2018, 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 (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited 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 *(Note 1)*	369,100,000	13.73%
Mr. Chen Jinyan	Beneficial owner and held by controlled corporation *(Note 2)*	597,280,000	22.21%

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) Among the 597,280,000 shares, 593,480,000 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 and 3,800,000 shares are held 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. 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 2018.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options" below, 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 2018, 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
Ms. Lin Lin	Beneficial owner and interest in a controlled corporation	369,100,000	13.73%
Mr. Chen Jinqing	Beneficial owner and interest in a controlled corporation *(Note)*	166,000,000	6.17%
Dresdner VPV N. V.	Investment manager	139,755,200	5.20%

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 2018.

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 26 to the consolidated financial statements of the Company's 2018 annual report. At the annual general meeting of the Company held on 14 November 2018 (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 268,880,516 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 1.7.2018	Granted during the Period	Exercised during the Period	Outstanding at 31.12.2018
Directors							
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
				4,160,000	–	–	4,160,000
Employees	15.1.2018	15.1.2018 to 14.1.2028	0.430	268,500,000	–	–	268,500,000
Granted Total				272,660,000	–	–	272,660,000

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

22 February 2019