China Properties Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1838

Interim Report 2019

POWER VISION

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Kwan Kai Cheong

Independent Non-executive Directors

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

COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUTHORIZED REPRESENTATIVES

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

COMPANY SECRETARY

Ms. Yu Ling Ling

STOCK CODE

1838

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank

AUDITOR

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE

www.cpg-group.com

BUSINESS REVIEW AND OUTLOOK

Churchill, a man of vision and wisdom, courage, passion and kindness, was able to lead the British in defeating the German Nazis in World War II at the end. That is why there is the saying "what it takes to be a great general lies on his wisdom, not bravery". When we look at Trump, it's sad to say that he's got a lot of guts, but nothing between his ears: at one point he wants to impose tariff on Chinese products; at another he alleges China as a currency manipulator; he even goes to the extent of trying to put tariffs on countries all over the world. Obviously he has made a lot of foes instead of friends, as his actions have brought everyone a planet earth that is poorer. "An elephant is often hunted down because of its teeth, and a clam is often severed because of its pearl". While Trump tries to be over-smart, he will be out-smarted eventually by the Chinese, who possess the great wisdom of Mao Zedong: such as "only wait for the right moment to take revenge" and "when two armies are at war, the one with righteous indignation will win". From a global perspective, when a cunning but not-so-smart guy such as Trump becomes crazy, he may very well create a worldwide economic slowdown. Fortunately, the Group's liabilities in the Mainland amount to only less than RMB5 billion, which is being dealt with and is near its completion. As the policies at the places where some of our projects are located are changing so swiftly and are beyond our control, the development progress of these projects has been delayed. Definitely, the Group will strive for progress in this respect.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

China's GDP in 2019 H1 was recorded at RMB45,093.3 billion, seeing a 6.3% year-on-year growth.

Positive momentum of the residential property market of China sustained in 2019 H1 as the sales volume and investment amount of residential properties grew by 8.4% year-on-year and 15.8% year-on-year respectively, according to the National Statistics Bureau. In the government work report in March 2019, Premier Li Keqiang emphasized the importance of settling the housing demand of the general public for living. In a bid to stay in line with the national directive, local city-level governments continued to implement different housing policies to maintain a stable market. The leasing market, as a long-term strategy for sustainable and steady growth of the residential property market, continued its upward trajectory.

The retail property market of China remained buoyant in 2019 H1 as the total retail sales rose briskly by 8.4% on a year-on-year basis to RMB19,521.0 billion. The e-commerce market also continued its rapid growth. In 2019 H1, the national online retail sales of goods & services amounted to RMB4,816.1 billion, representing an increment of 17.8% year-on-year. The online retail sales of commodities increased by 21.6% to RMB3,816.5 billion and accounted for 19.6% of the total retail sales of consumer goods. Among the online retail sales of physical goods, food, clothing and daily necessities went up by 29.3%, 21.4% and 20.9% respectively. F&B and entertainment retailers were the fastest growing trades, while the sportswear and cosmetics market also expanded rapidly with the rising interests on pursuits of health and beauty.

The office property market of China remained dynamic in 2019 H1 despite macroeconomic headwinds. While the technology, media and telecommunications ("TMT") and finance industries continued to be the mainstream tenants, flexible workspace operators had taken up a sizeable market share, especially in first-tier cities. The strong leasing demand from these industries contributed to a steady vacancy rate and a healthy rental growth.

Overview of the Shanghai Property Market

Shanghai maintained a steady economic growth. As of 2019 H1, Shanghai's GDP grew by 5.9% year-on-year to RMB1,641.0 billion.

New commodity residential supply in 2019 H1 showed appreciable growth to 3.62 million square metres, increased by 73.2% year-on-year. The market was active over the period, as evidenced by the high commodity residential transaction volume of 3.58 million square metres in 2019 H1. There were no significant fluctuations in the overall pricing in the first half of the year amid the unchanged strict intervention from the government since 2016.

The retail sales was recorded at RMB666.1 billion in 2019 H1, representing a growth of 8.4% year-on-year. The solid performance of retail sales was a positive indicator of the retail property market. Two new projects were launched in 2019 H1, adding about 88,000 square metres of new supply to the market. The vacancy rate and net absorption stayed healthy as supported by the strong demand, and the average rent remained stable despite the new supply and tenant mix reshuffling in existing projects. While experimental consumption continued to be the trend in 2019, some malls particularly focused on kids' retail categories including children's gym and massage spa to attract families to spend time and money at their places.

According to the Shanghai Statistics Bureau, tertiary industry contributed about 71% of the total GDP in 2019 H1, grown by 9.1% year-on-year to RMB1,167.3 billion. Despite an abundance of Grade A office supply of 9.0 million square metres as of 2019 H1, the vacancy rate was recorded at 11.9% stemming from the expansion of foreign retail brands and flexible workspace operators in core business areas. As a result, the office demand traditionally dominated by the finance, insurance and professional services sector was further diversified.

Overview of the Chongqing Property Market

Chongqing's economy continued to grow positively. Chongqing's GDP was recorded at a rise of 6.2% year-on-year to RMB1,033.5 billion in 2019 H1.

The new supply of residential property remained strong, totalling 11.30 million square metres in 2019 H1. Thanks to the continuing increase in housing supply since the beginning of 2019, transaction volume of commodity housing jumped to 7.10 million square metres in 2019 Q2, experiencing a 51.1% quarter-on-quarter increase. Average price grew by 3.4% year-on-year to about RMB12,100 per square metre despite the continued introduction of market stabilization policies.

Consumer spending remained strong as the retail sales grew by 8.9% year-on-year to RMB426.4 billion in 2019 H1. Due to the uptick in demand, the vacancy rate dropped to 11.6% while three new projects brought a new supply of about 280,000 square metres to the retail property market in 2019 H1. Several well-known brands and foreign catering retailers were lured to Chongqing, where the local authorities decided to implement action plans to develop the city as an international consumer centre. Landlords were also keen to welcome entertainment stores like zoos, cinemas and video gaming retailers to attract a high level of footfall.

According to the Chongqing Statistics Bureau, tertiary industry grew by 6.1% year-on-year to RMB572.0 billion in 2019 H1. The supply of Grade A office buildings was relatively stable in 2019 H1 while the demand remained strong. This drove a lower overall vacancy rate. While finance and professional services sectors remained the key drivers of office demand, flexible workspace operators had been rapidly expanding as some companies decided to settle in cost-effective third-party office operators. The TMT industry also increased its presence since the launch of "Innovating China in Chongqing".

Outlook of the Mainland Property Market

After reiterating the importance of settling the housing demand of the general public for living in the government work report in March 2019, the determination of suppressing the investment sentiment of housing market by the central government is anticipated to stay unchanged in 2019.

To ensure housing market stability, there is unlikely to be any significant policy shift to impose more stringent policies amid concerns about slowing demand. Overall, the residential market is envisaged to continue its stable and healthy development with a steadily increasing price. Meanwhile, the rental market is expected to get a boost going forward, fueled by the current market stabilization policy on purchasing market. More for-lease residential land plots are anticipated to be launched onto the market.

The retail leasing momentum is expected to remain stable with experimental retailers, Internet celebrity F&B stores and child-focused brands being the main demand generators. Landlords are expected to further improve the shopping experiences and adjust the tenant mix regularly to attract and retain customers. All in all, the retail property market in China is anticipated to be developed at a steady rate.

The office leasing sentiment is expected to remain generally upbeat with the steady economic growth. While the robust demand from TMT and finance industries will continue to support a stable rental growth, flexible workspace operators are expected to further contribute to the market share, especially in first-tier cities. These operators will be more creative in enriching the working experience and optimization of space in order to stay competitive.

FINANCIAL REVIEW

The Group's profit attributable to owners of the Company for the six months ended June 30, 2019 amounted to approximately RMB160 million (six months ended June 30, 2018: RMB278 million), decreased by 42% when compared to the same period of 2018. Basic earnings per share were RMB0.09 (six months ended June 30, 2018: RMB0.15).

As at June 30, 2019, the total assets increased to RMB61,328 million from RMB60,572 million as at December 31, 2018. Net assets, the equivalent of shareholders' funds, increased to RMB37,710 million (December 31, 2018: RMB37,550 million). In terms of value per share, net assets value per share is RMB20.84 at the end of the reporting period, as compared to RMB20.75 as at December 31, 2018. As the Group continues its investment of premium property developments in PRC with attendant appreciation in fair value, there was a RMB175 million fair value gain from the current portfolio.

The Group's revenue of RMB178 million (six months ended June 30, 2018: RMB29 million) increased by 514% when compared with the corresponding period last year, which was mainly due to the increase in revenue from sales of properties.

The revenue from sales of properties amounted to RMB172 million (six months ended June 30, 2018: RMB23 million), increased by 648% as compared with the corresponding period last year. The Group sold properties with total gross floor area of approximately 137,037 sq. ft. for the six months ended June 30, 2019 as compared to 19,949 sq. ft. in the corresponding period last year.

Gross profit margin for sales of properties was 61% (six months ended June 30, 2018: 61%).

Income from property leasing was RMB1.7 million (six months ended June 30, 2018: RMB0.8 million). Property management income was RMB4 million (six months ended June 30, 2018: RMB5 million).

During the period under review, the Group generated income of RMB93 million, RMB67 million and RMB12 million from sales of residential properties of Shanghai Concord City, residential properties of Chongqing Manhattan City Phase I, residential properties of Chongqing Manhattan City Phase II respectively.

Contract liabilities increased to RMB1,081 million as at June 30, 2019 from RMB865 million as at December 31, 2018. This was primarily due to the increase in deposits received on sales of Shanghai Concord City Phase I and Chongqing Manhattan City Phase I and II and the pre-sale of residential properties of Chongqing Manhattan City Phase III during the period under review.

Other income, gains and losses, net were RMB0.2 million (six months ended June 30, 2018: RMB2.5 million).

During the period under review, selling expenses were RMB3 million (six months ended June 30, 2018: RMB2 million).

Administrative expenses during the six months ended June 30, 2019 were RMB40 million (six months ended June 30, 2018: RMB23 million) which increased by 74%.

Finance costs represent mainly interest expenses and other borrowing costs in relation to bank and other borrowings, effective interest of convertible note and the fixed-rate senior notes. Since finance costs of approximately RMB380 million (six months ended June 30, 2018: RMB441 million) were capitalized on various projects, finance costs of RMB0.5 million (six months ended June 30, 2018: Nil) were charged to the profit or loss during the period under review.

The changes in fair value of investment properties were RMB175 million (six months ended June 30, 2018: RMB416 million), a decrease of 58% when compared to the same period last year. The increase in fair value of investment properties during the period ended June 30, 2019 is owing to the steady development of the property market in Shanghai and Chongqing. Both the leasing and capital markets of real estate in Shanghai and Chongqing have remained stable since the end of 2018. The changes in fair value of investment properties in Shanghai experienced an increase of RMB47 million (six months ended June 30, 2018: RMB222 million) which was mainly contributed from valuation appreciation of the project of Shanghai Concord City. The changes in fair value of investment properties in Chongqing experienced an increase of RMB128 million (six months ended June 30, 2018: RMB194 million) which was mainly contributed from the valuation appreciation of the projects of Chongqing Concord City and Chongqing International Commerce Centre.

Income tax expense was RMB64 million (six months ended June 30, 2018: RMB105 million), a decrease of 39%. The decrease in income tax expense was due to the decrease in the amount of changes in fair value of investment properties for the period under review in comparison to the same period last year. The Group's effective income tax rate was 28% (six months ended June 30, 2018: 27%).

LIQUIDITY AND FINANCING

The Group monitors its liquidity requirements on a short to medium-term basis and arranges refinancing of the Group's borrowing when appropriate. During the period, the Group repaid net external borrowings totaling of approximately RMB146 million (six months ended June 30, 2018: repaid net external borrowing totaling of approximately RMB524 million); on the other hand, the Group also received an advance from a shareholder amounted to RMB185 million (six months ended June 30, 2018: received an advance from a shareholder of RMB359 million) during the period.

At the end of the reporting period, the Group's senior notes, bank and other borrowings and amount due to a shareholder amounted to RMB1,574 million (December 31, 2018: RMB1,576 million), RMB4,963 million (December 31, 2018: RMB4,906 million) and RMB3,683 million (December 31, 2018: RMB3,498 million) respectively, and the Group's total borrowings were RMB10,220 million (December 31, 2018: RMB9,980 million), an increase of RMB240 million when compared to December 31, 2018. RMB8,695 million (December 31, 2018: RMB8,453 million) is repayable within one year whilst the remaining is repayable in the second to fifth year inclusive.

The gearing ratio of the Group as at June 30, 2019 was 27.0% (December 31, 2018: 26.4%), determined as proportion of the Group's net borrowings (after deducting bank balances and cash and pledged bank deposits) to the shareholders' funds.

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

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

TREASURY POLICIES

At the end of the reporting period, approximately 85% (December 31, 2018: 84%) of the Group's borrowings were maintained in RMB. The Group derives its revenue mainly in RMB. Bank balances are maintained mainly in RMB and HK$.

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

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

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

CHARGE ON ASSETS

As at June 30, 2019, the Group pledged assets with an aggregate carrying value of RMB48,597 million (December 31, 2018: RMB48,388 million) to secure loan facilities utilized.

CONTINGENT LIABILITIES

As at June 30, 2019, the Group guaranteed mortgage loans to purchasers of its properties in the aggregate outstanding principal amount of RMB444 million (December 31, 2018: RMB473 million). During the six months ended June 30, 2019, there was no default case.

Legal disputes

As at June 30, 2019, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales and properties held for sale in an aggregate amount of approximately RMB24 million (December 31, 2018: RMB41 million) and the withdrawal of bank deposits of approximately RMB3 million (December 31, 2018: RMB5 million) as at June 30, 2019. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards. Pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or is in the process of making counter-claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The management has sought advices from the independent legal advisors or internal legal counsel on these disputes or legal proceedings. As at June 30, 2019, the Group has provided construction cost liabilities amounting to RMB48 million (December 31, 2018: RMB49 million) in relation to the above mentioned construction contracts under dispute. The net financial effect of both claims and counter-claims is considered insignificant.

Outstanding legal claims that are still subject to legal proceedings and/or appeal amounted to approximately RMB37 million (December 31, 2018: RMB74 million) in aggregate. No further provision has been made in the condensed consolidated interim financial statements in respects of these claims. The directors of the Company are of the opinion that the Group has reasonable ground to defend those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

Except for the matters disclosed elsewhere, the Group has the following litigations with some of its lenders:

1) On August 28, 2015, Shanghai Jingan-Concord Real Estate Co., Ltd. ("Shanghai Jingan") and Shanghai Minhang Concord Property Development Co., Ltd.) ("Shanghai Minhang"), each a wholly-owned subsidiary of the Company, as borrowers entered into an entrusted loan agreement with 平安大華匯通財富管理有限公司 ("PinganDahua") whereby an entrusted loan in the aggregate amount of RMB1.3 billion was granted, originally repayable by August 31, 2018 and extended verbally to October 15, 2018. Since then, the above parties have been in negotiations on new repayment arrangements. PinganDahua, without notice to Shanghai Jingan and Shanghai Minhang, made an application to the notary office for an execution certificate at the end of December 2018 and filed an application for enforcement with the High Court of Shanghai. At February 26, 2019, the Company consulted with and obtained independent legal advice from PRC legal counsel, which is of the view that, given the actions of PinganDahua are misleading and constitute misconduct on its part, it is unlikely to cause any significant losses to the Group.

   Given that the matter is currently pending commencement of judicial proceedings, for the period ended June 30, 2019 and up to the date of this report, no payments have been made to PinganDahua. Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned is unlikely to have any material adverse impact on the performance and financial condition of the Group. The parties are currently in the process of negotiating a settlement agreement to settle the indebtedness. The settlement agreement will be filed with the High Court of Shanghai once entered into and will accordingly resolve the above situation.

2) On November 9, 2016, Shanghai Jingan as borrower entered into an entrusted loan agreement (the "Lujiazui Entrusted Loan Agreement") with 陸家嘴國際信託有限公司 ("Lujiazui") whereby an entrusted loan in the total aggregate amount of RMB1.3 billion was granted. Three tranches of loan were due on May 23, 2019, June 6, 2019 and June 15, 2019. Pursuant to the Lujiazui Entrusted Loan Agreement, Shanghai Jingan was required to pay a deposit of RMB124 million to Lujiazui by December 15, 2018, failing which Lujiazui can demand the immediate repayment of the total loan together with liquidated charges and interest. The full RMB124 million was not paid by due date and since December 4, 2018, Shanghai Jingan and Lujiazui have been in discussion to make a partial prepayment of the loan principal by utilising proceeds from sale of certain residential properties which have been charged to Lujiazui as security for the loan. Without notice to Shanghai Jingan, Lujiazui filed a civil claim claiming the amount of RMB1.24 billion against Shanghai Jingan with the High Court of Shanghai on December 20, 2018 (the "Claim"). On April 15, 2019, the High Court of Shanghai has made the first instance judgment that the Claim represents the first notice given to Shanghai Jingan requesting for early repayment and the non-repayment upon the receipt of the Claim constitute breach of the Lujiazui Entrusted Loan Agreement and Shanghai Jingan shall be liable to payment of default interest from December 30, 2018, being the date of receipt of the Claim by Shanghai Jingan. Shanghai Jingan has filed an appeal, among other matters, over the calculation of penalty interest set out in the first instance judgment and the case is currently in the second instance of the court. Given that the matter is currently in the second instance of the court, for the period to June 30, 2019, no payments have been made to Lujiazui. Concurrently, the parties are also in the process of negotiating a settlement to settle the indebtedness.

Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

3) On September 27, 2017, Shanghai Jingan as a borrower entered into an entrusted loan agreement (the "JIC Trust Entrusted Loan Agreement") with 中建投信託股份有限公司 ("JIC Trust") whereby an entrusted loan in the aggregate amount of RMB1.2 billion was granted in twelve tranches. The loan tenure for each tranche is 24 months and will be due from October 13, 2019 to December 29, 2019 (the "Loan Term"). Pursuant to the JIC Trust Entrusted Loan Agreement, the lender has the right to demand immediate repayment of the loan if the lender has doubt over the borrower's financial ability to repay the loan. On February 14, 2019, Shanghai Jingan received a notice from JIC Trust informing that the JIC Trust Entrusted Loan Agreement would be terminated on February 18, 2019 and the loan would be due on the same day. As the Loan Term has not yet expired, Shanghai Jingan did not repay the loan as demanded. On February 22, 2019, JIC Trust filed a civil claim against Shanghai Jingan and the Company declaring the termination of the JIC Trust Entrusted Loan Agreement and the loan due (the "JIC Trust Claim"). The amount of claim is RMB1,452.35 million. The JIC Trust Claim is currently pending commencement of judicial proceedings.

The Company has consulted with and obtained independent legal advice from PRC legal counsel, which is of the opinion that given the loan has yet been due, the claim is unlikely to cause any significant losses to the Group. Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

INTERIM DIVIDEND

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

EMPLOYEES AND REMUNERATION POLICY

As at June 30, 2019, the Group had approximately 356 employees (June 30, 2018: 358 employees) in Hong Kong and the PRC. There is no significant change in the Group's emolument policies.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

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

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

As at June 30, 2019, the interests and/or short positions of the directors and chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

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

As at June 30, 2019, the long position in ordinary shares and underlying shares of the Company of the directors and the chief executives are as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	*Note*
Mr. Wong Sai Chung ("Mr. Wong")	Corporate	1,356,800,000 shares	75.00%	*(i)*
Mr. Cheng Chaun Kwan, Michael ("Mr. Cheng")	Personal & family	1,000,000 shares	0.06%	*(ii)*

Notes:

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

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

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

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

Notes:

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

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

As at June 30, 2019, Mr. Wong was a director of Hillwealth, Concord China Land Holdings Limited and PCH, and Dr. Wang Shih Chang, George and Mr. Kwan Kai Cheong were also directors of PCH.

Save as disclosed herein, as at June 30, 2019, none of the directors or chief executives nor their associates had or deemed to have any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations.

ADDITIONAL INFORMATION REQUIRED UNDER LISTING RULES

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and Chief Executives' Interests in Shares and Underlying Shares and Debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at June 30, 2019 and as at the date of this report.

SHARE OPTION SCHEME

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE CODE COMPLIANCE

Throughout the six months ended June 30, 2019, the Company had complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standard of dealings as set out in the Model Code and the Company's Code of Conduct during the six months ended June 30, 2019.

AUDITOR AND AUDIT COMMITTEE

The Company has established the Audit Committee and has formulated its written terms of reference in accordance with the provisions set out in the Corporate Governance Code. The Audit Committee comprises four Independent Non-executive Directors, namely Mr. Warren Talbot Beckwith (Chairman of the Audit Committee), Mr. Luk Koon Hoo, Dr. Garry Alides Willinge and Mr. Cheng Chaun Kwan, Michael. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, risk management and internal control systems, review of the Group's financial information and review of the relationship with the external auditor of the Company.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited 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. BDO Limited's independent review report to the Board of Directors is included on pages 15 to 16.

REMUNERATION COMMITTEE

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

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

APPRECIATION

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

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

Hong Kong, August 29, 2019

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF CHINA PROPERTIES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements set out on pages 17 to 46 which comprise the condensed consolidated statement of financial position of China Properties Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (the "condensed consolidated interim financial statements"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the condensed consolidated interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. This report is made 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 inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

CONCLUSION

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

EMPHASIS OF MATTER — MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our conclusion, we draw attention to note 1 in the condensed consolidated interim financial statements, which indicates that as of June 30, 2019, the Group had net current liabilities of RMB4,041,948,000. In addition, the Group is in dispute with certain lenders, who have taken legal action to demand for repayment of certain other borrowings which are due. These events and conditions, along with other matters as set forth in note 1 to the condensed consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

BDO Limited
Certified Public Accountants
Jonathan Russell Leong
Practising Certificate Number P03246
Hong Kong

August 29, 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2019

	NOTES	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue	4 & 5	**177,697**	28,780
Cost of sales		**(72,452)**	(14,446)
Gross profit		**105,245**	14,334
Other income, gains and losses, net	5	**224**	2,508
Net exchange loss		**(12,598)**	(28,359)
Selling expenses		**(3,498)**	(1,833)
Administrative expenses		**(39,251)**	(23,189)
Finance costs	6	**(525)**	—
Profit (loss) from operation before changes in fair value of investment properties and conversion option derivative		**49,597**	(36,539)
Changes in fair value of investment properties		**174,519**	416,496
Changes in fair value of conversion option derivative	15	**—**	2,456
Profit before tax		**224,116**	382,413
Income tax expense	7	**(63,809)**	(104,615)
Profit and total comprehensive income for the period attributable to owners of the Company	8	**160,307**	277,798
		RMB	RMB
Earnings per share			
Basic	9	**0.09**	0.15
Diluted	9	**0.09**	0.14

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

	NOTES	**June 30, 2019 RMB'000 (unaudited)**	December 31, 2018 RMB'000 (audited)
ASSETS AND LIABILITIES			
Non-current Assets			
Property, plant and equipment		**422,193**	409,775
Prepaid lease payments		**88,211**	89,785
Investment properties	11	**53,792,500**	53,422,046
		54,302,904	53,921,606
Current Assets			
Properties under development for sales		**6,362,588**	6,000,219
Properties held for sales		**391,943**	402,843
Other receivables, deposits and prepayments	12	**224,815**	186,121
Pledged bank deposits		**24,400**	24,400
Bank balances and cash		**21,132**	37,163
		7,024,878	6,650,746
Current Liabilities			
Contract liabilities		**1,081,120**	865,363
Construction costs accruals		**305,290**	295,734
Other payables and accruals		**258,390**	193,252
Amount due to a shareholder	20(i)	**3,683,013**	3,498,137
Lease liabilities		**3,784**	—
Tax payables		**723,997**	706,318
Borrowings — due within one year	13	**4,962,722**	4,906,423
15.0% fixed-rate senior notes	14	**48,510**	49,393
		11,066,826	10,514,620
Net Current Liabilities		**(4,041,948)**	(3,863,874)
Total Assets less Current Liabilities		**50,260,956**	50,057,732
Non-current Liabilities			
15.0% fixed-rate senior notes	14	**1,525,395**	1,526,929
Lease liabilities		**821**	—
Deferred tax liabilities		**11,024,868**	10,981,238
		12,551,084	12,508,167
Net Assets		**37,709,872**	37,549,565
EQUITY			
Capital and Reserves			
Share capital	16	**170,073**	170,073
Share premium and reserves		**37,539,799**	37,379,492
Total Equity		**37,709,872**	37,549,565

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	Attributable to owners of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Revaluation reserve** RMB'000	**Special reserve** RMB'000 (Note a)	**Other reserve** RMB'000 (Note b)	**General reserve** RMB'000 (Note c)	**Shareholder contribution reserve** RMB'000 (Note d)	**Retained earnings** RMB'000	**Total** RMB'000
At January 1, 2018 (audited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,190,566	37,189,591
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	277,798	277,798
At June 30, 2018 (unaudited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,468,364	37,467,389
At January 1, 2019 (audited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,550,540	37,549,565
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	160,307	160,307
At June 30, 2019 (unaudited)	170,073	1,331,968	6,259	782,789	2,468,576	51,223	188,137	32,710,847	37,709,872

Notes:

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**154,687**	205,403
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(1,000)**	(4,662)
Additions to investment properties	**(39,718)**	(83,524)
Proceeds received from disposal of investment properties	**7,637**	7,026
Withdrawal of pledged bank deposits	**—**	186,041
Interest received	**38**	453
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(33,043)**	105,334
FINANCING ACTIVITIES		
New borrowings raised	**70,695**	531,000
Repayment of borrowings	**(216,606)**	(1,055,000)
Repayment of lease liabilities	**(2,307)**	—
Advance from a shareholder	**184,876**	358,964
Interest paid	**(174,333)**	(390,130)
NET CASH USED IN FINANCING ACTIVITIES	**(137,675)**	(555,166)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(16,031)**	(244,429)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**37,163**	290,775
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**21,132**	46,346

1. GENERAL INFORMATION AND BASIS OF PREPARATION

China Properties Group Limited (the "Company") is a public limited company incorporated in Cayman Islands and its shares are listed on the Stock Exchange. Its parent and ultimate holding company is Hillwealth Holdings Limited ("Hillwealth"), a limited company incorporated in British Virgin Islands. Its ultimate controlling party is Mr. Wong, who is also Managing Director of the Company. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company acts as an investment holding company and its subsidiaries (collectively, the "Group") are principally engaged in property development and property investment in the PRC.

The condensed consolidated interim financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

These condensed consolidated interim financial statements do not include all the information and disclosures required in a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018.

In preparing the condensed consolidated interim financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as of June 30, 2019, the Group had net current liabilities of RMB4,041,948,000 and the Group has construction costs accruals, other payables and accruals, amount due to a shareholder, borrowings and 15.0% fixed-rate senior notes with carrying amounts of RMB305,290,000, RMB258,390,000, RMB3,683,013,000, RMB4,962,722,000 and RMB48,510,000 respectively, which are due to be repaid within one year from the end of the reporting period. In addition, the Group has certain other borrowings which are due and/or which are in dispute with the lenders, who have taken legal action to demand for repayment of these borrowings which are included in the borrowings of RMB4,962,722,000 in the total amount of RMB4,831,101,000. Further details are set out in note 17. Furthermore, the Group had other commitments contracted but not provided for in the condensed consolidated interim financial statements of approximately RMB1,783,315,000 as stated in note 18. These events and conditions may cast significant doubt on the Group's ability to continue as a going concern.

1. GENERAL INFORMATION AND BASIS OF PREPARATION — continued

Nevertheless, the condensed consolidated interim financial statements have been prepared on the going concern basis because the directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from June 30, 2019, after taking into consideration of the following factors and assumptions:

(1) the Group is in negotiations to obtain new credit facilities amounting to not less than RMB4,600,000,000;

(2) confirmation from a shareholder, Mr. Wong, that he would not demand repayment of the amount due to him until the Group has excess cash to repay; and

(3) the estimated proceeds from sales of its investment properties, properties held for sales and pre-sale of properties under development for sales.

There is a material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and, therefore that the Group may not be able to realise in assets and discharge its liabilities in the normal course of business. Should the Group be unable to continue its business as a going concern, adjustments would have to be made in the condensed consolidated interim financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of such adjustments has not yet been reflected in the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended June 30, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018.

The application of the new and revised HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period has had no material effect on the amounts reported in these condensed consolidated interim financial statements and/or disclosures set out in these condensed consolidated interim financial statements, unless otherwise stated.

2. PRINCIPAL ACCOUNTING POLICIES — continued

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

The impact of the adoption of HKFRS 16 Leases and Annual Improvement to HKFRSs 2015-2017 Cycle have been summarised in below. The other new or amended HKFRSs that are effective from January 1, 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16 Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the simplified transition approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of December 31, 2018 to that of January 1, 2019 as follows:

	RMB'000
Statement of financial position as at January 1, 2019	
Increase in property, plant and equipment	6,409
Increase in lease liabilities (non-current)	2,793
Increase in lease liabilities (current)	3,616

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 16 Leases — continued

(i) Impact of the adoption of HKFRS 16 — continued

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of December 31, 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at January 1, 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitment as of December 31, 2018	7,721
Add: leases included in extension option which the Group considers reasonably certain to exercise	243
Less: future interest expenses	(1,555)
Total lease liabilities as of January 1, 2019	6,409
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at January 1, 2019	16.62%

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 16 Leases — continued

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use asset at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are amortised over the lease term on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 16 Leases — continued

(iii) Accounting as a lessee — continued

Right-of-use asset — continued

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be amortised over the lease term on a straight-line basis. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these condensed consolidated interim financial statements.

2. PRINCIPAL ACCOUNTING POLICIES — continued

HKFRS 16 Leases — continued

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the simplified transition approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance at the date of initial application (January 1, 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of January 1, 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at January 1, 2019.

The Group has elected to recognise all the right-of-use assets at January 1, 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the date of initial application, and measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at January 1, 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at January 1, 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended December 31, 2018, except for new significant judgements related to the application of HKFRS 16 as described in note 2.

4. SEGMENT INFORMATION

(a) The Group determines its operating segments based on the reports reviewed by the executive directors, who are the chief operating decision-makers that make strategic decisions about the Group's operations and future directions and objectives. The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended June 30, 2019 (unaudited)

	Property development		**Property investment**			
	Shanghai RMB'000	**Chongqing RMB'000**	**Shanghai RMB'000**	**Chongqing RMB'000**	**Others RMB'000**	**Total RMB'000**
Revenue						
External revenue	**92,801**	**78,828**	**684**	**1,029**	**4,355**	**177,697**
Segment profit (loss)	**75,937**	**28,808**	**47,835**	**128,397**	**(1,213)**	**279,764**
Other income, gains and losses, net						**224**
Net exchange loss						**(12,598)**
Unallocated items						**(43,274)**
Profit before tax						**224,116**

For the six months ended June 30, 2018 (unaudited)

	Property development		Property investment			
	Shanghai RMB'000	Chongqing RMB'000	Shanghai RMB'000	Chongqing RMB'000	Others RMB'000	Total RMB'000
Revenue						
External revenue	13,220	9,570	98	687	5,205	28,780
Segment profit (loss)	10,885	2,910	221,719	195,562	(246)	430,830
Other income, gains and losses, net						2,508
Net exchange loss						(28,359)
Unallocated items						(22,566)
Profit before tax						382,413

4. SEGMENT INFORMATION — continued

(b) In the following table, revenue under HKFRS 15 is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

Disaggregation of revenue

For the six months ended June 30, (unaudited)

	Sales of properties				Property management income		Total	
	Shanghai		Chongqing					
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Timing of revenue recognition								
At a point in time	**92,801**	13,220	**78,828**	9,570	**—**	—	**171,629**	22,790
Transferred over time	**—**	—	**—**	—	**4,355**	5,205	**4,355**	5,205
	92,801	13,220	**78,828**	9,570	**4,355**	5,205	**175,984**	27,995

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

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Sales of properties	**171,629**	22,790
Property rental income	**1,713**	785
Property management income	**4,355**	5,205
	177,697	28,780
Other income, gains and losses, net		
Gain on disposal of investment properties	**154**	1,960
Interest on bank deposits	**37**	453
Others	**33**	95
	224	2,508
Total revenue and other income, gains and losses, net	**177,921**	31,288

Contract liabilities mainly relate to the deposits received from customers for sales of properties. RMB57,000,000 of the contract liabilities as of January 1, 2019 were recognised as revenue for the six months ended June 30, 2019.

As at June 30, 2019, contract liabilities or the aggregated amount of the deposits received from the remaining performance obligations under the Group's existing contracts was RMB1,081,120,000. This amount represents revenue expected to be recognised in the future from acceptance of properties by customers. The Group will recognise the expected revenue in future, which is expected to occur in the next 12 months.

6. FINANCE COSTS

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on other borrowings	**261,690**	292,967
Interest on bank borrowings	**491**	642
Effective interest expense on 13.5% fixed-rate senior notes	**—**	111,942
Effective interest expense on 15.0% fixed-rate senior notes	**117,625**	—
Effective interest expense on convertible note	**—**	35,111
Interest on lease liabilities	**525**	—
Total finance costs	**380,331**	440,662
Less: Amount capitalized in construction in progress included in property, plant and equipment, investment properties under construction and properties under development for sales	**(379,806)**	(440,662)
	525	—

6. FINANCE COSTS — continued

Borrowing costs capitalized during the period which arose on the specific borrowings are approximately RMB232,657,000 (six months ended June 30, 2018: RMB169,904,000). Borrowing costs capitalized during the period which arose on the general borrowing pool of approximately RMB147,149,000 (six months ended June 30, 2018: RMB270,758,000) are calculated by applying a capitalization rate of 16.39% per annum (six months ended June 30, 2018: 7.35%) to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Enterprise income tax/Land Appreciation Tax ("LAT") in the PRC	**20,179**	491
Deferred tax:		
Current period	**43,630**	104,124
	63,809	104,615

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

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

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

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated interim financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to approximately RMB781,020,000 (December 31, 2018: RMB771,407,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

8. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period is arrived at after charging (crediting):		
Directors' emoluments	**639**	609
Other staff costs		
— Salaries and other benefits	**13,682**	13,107
— Contribution to retirement benefits schemes	**2,835**	2,833
Total staff costs	**17,156**	16,549
Less: Amount capitalized in investment properties under construction and properties under development for sales	**(4,687)**	(3,501)
	12,469	13,048
Auditors' remuneration	**577**	550
Amortization of prepaid lease payments	**1,574**	1,574
Less: Amount capitalized in construction in progress under property, plant and equipment	**(1,552)**	(1,552)
	22	22
Depreciation of property, plant and equipment	**3,133**	1,259
Less: Amount capitalized in construction in progress under property, plant and equipment	**(694)**	(693)
	2,439	566
Cost of properties sold (included in cost of sales)	**66,883**	8,995
Gross rental income from investment properties	**(1,713)**	(785)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**—**	18
	(1,713)	(767)

9. EARNINGS PER SHARE

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

	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**160,307**	277,798
Effect of dilutive potential ordinary shares:		
— Changes in fair value of conversion option derivative	**—**	(2,456)
Earnings for the purpose of diluted earnings per share	**160,307**	275,342
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,809,077**	1,809,077
Effect of dilutive potential ordinary shares:		
— Convertible note	**—**	206,612
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,809,077**	2,015,689

10. DIVIDENDS

No dividend was paid, declared or proposed during the reporting periods. The directors of the Company do not recommend the payment of any dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

11. INVESTMENT PROPERTIES

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
FAIR VALUE		
Completed properties held for rental purpose (Note a)	**2,686,889**	2,692,875
Investment properties under construction	**51,105,611**	50,729,171
Total	**53,792,500**	53,422,046

Note:

(a) As at June 30, 2019, included in the Group's completed properties held for rental purpose, balance are properties in Shanghai, namely, Phase 1 of Shanghai Concord City with carrying amount of approximately RMB2,235,110,000 (December 31, 2018: RMB2,230,410,000); which is currently unoccupied and strategically reserved for lease in the future because the Group plans to restructure the mixture of the tenants. For the Group's marketing strategy, upon the completion of the northern portion of Phase 2 of Shanghai Concord City ("Phase 2 North Portion"), the Group will then recruit their target tenants for both Phase 1 and Phase 2 North Portion of Shanghai Concord City.

The fair values of certain of the Group's investment properties at June 30, 2019 and December 31, 2018 were determined with the assistance of Vincorn Consulting and Appraisal Limited ("Vincorn") in respect of the properties situated in Shanghai and Chongqing, the PRC. Vincorn is an independent qualified professional valuer not connected with the Group, a member of the Institute of Valuers and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

The fair values of investment properties in Shanghai and Chongqing as at June 30, 2019 were determined to be approximately RMB42,225,193,000 (December 31, 2018: RMB42,032,724,000) and RMB11,567,307,000 (December 31, 2018: RMB11,389,322,000) respectively. For completed investment properties, the valuations have been arrived at using the capitalization of net income method of valuation, based on the present value of the income to be derived from the properties. For the completed properties which are currently vacant, the valuation was based on capitalization of the hypothetical and reasonable market rents with a typical lease term. For investment properties under construction, the valuations have been arrived at using the residual approach by making reference to recent sales transactions of completed properties or rental information in the relevant market as publicly available to determine the potential rental income of the completed investment properties, less estimated costs to completion and expected developers profit margin so as to determine the value of the proposed development as if these were completed as at the date of valuation. The rental income included in the residual method was principally based on income approach by taking into account the current rents passing and the reversionary income potential of tenancies. These has been no change in the valuation technique used as compared with 2018.

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

11. INVESTMENT PROPERTIES — continued

For investment properties located in Shanghai

For the six months ended June 30, 2019, in determining the fair values of the investment properties located in Shanghai, Vincorn has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Gross capitalization rate is ranging from 3% to 6% (December 31, 2018: ranging from 3% to 6%).

ii. Rental rate per month per square metre is ranging from RMB387 to RMB1,909 (December 31, 2018: ranging from RMB382 to RMB1,800).

iii. Occupancy rate for the investment properties is ranging from 40% to 98% (December 31, 2018: ranging from 40% to 98%).

iv. Expected developer profit is ranging from 10% to 20% (December 31, 2018: ranging from 10% to 20%).

v. Discount rate of retail and office portion is ranging from 8% to 9% (December 31, 2018: ranging from 8% to 9%) per annum and 9% (December 31, 2018: 9%) per annum respectively.

vi. Rate of finance cost is ranging from 5% to 6% (December 31, 2018: ranging from 5% to 6%).

vii. Annual growth rate of rental income is ranging from 5% to 6% (December 31, 2018: ranging from 5% to 6%).

For investment properties located in Chongqing

For the six months ended June 30, 2019, in determining the fair values of the investment properties located in Chongqing, Vincorn has adopted the discounted cash flow analysis and residual approach with the following key assumptions:

i. Gross capitalization rate is ranging from 7% to 8% (December 31, 2018, ranging from 7% to 8%).

ii. Rental rate per month per square metre is ranging from RMB228 to RMB852 (December 31, 2018: ranging from RMB228 to RMB844).

iii. Occupancy rate for the investment properties is ranging from 60% to 85% (December 31, 2018: ranging from 60% to 85%).

iv. Expected developer profit is ranging from 25% to 30% (December 31, 2018: ranging from 25% to 30%).

v. Discount rate of retail and office portion is 10% (December 31, 2018: 10%) per annum and 5% (December 31, 2018: 5%) respectively.

vi. Rate of finance cost is 5% (December 31, 2018: 5%).

11. INVESTMENT PROPERTIES — continued

For investment properties located in Chongqing — continued

vii. Annual growth rate of rental income is ranging from 5% to 6% (December 31, 2018: ranging from 5% to 6%).

All the Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Prepayment of business taxes and other PRC taxes	**47,771**	55,826
Other receivables, deposits and prepayments	**177,044**	130,295
	224,815	186,121

13. BORROWINGS

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Bank borrowings, secured	**16,273**	16,027
Other borrowings, secured	**4,946,449**	4,890,396
	4,962,722	4,906,423

Bank borrowings

As at June 30, 2019, entire balance of bank borrowings represent variable-rate bank borrowings. The interest rates of the Group's variable-rate bank borrowings are based on base rate fixed by the People's Bank of China plus a premium.

13. BORROWINGS — continued

Bank borrowings — continued

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

	June 30, 2019 (unaudited)	December 31, 2018 (audited)
Effective interest rate:		
Variable-rate bank borrowings	**6.1%**	6.1%

Other borrowings

As at June 30, 2019 and December 31, 2018, entire balances of other borrowings represent fixed-rate borrowings. Based on scheduled repayment dates set out in the loan agreements, fixed-rate other borrowings of approximately RMB4,946,449,000 (December 31, 2018: RMB4,890,396,000) are shown under current liabilities.

The weighted average rate of the other borrowings is 10.21% (December 31, 2018: 11.02%) per annum.

The bank and other borrowings outstanding as of June 30, 2019 were secured by the following:

- property, plant and equipment with a carrying value of approximately RMB346,049,000 (December 31, 2018: RMB345,377,000);
- prepaid lease payments with a carrying value of approximately RMB1,815,000 (December 31, 2018: RMB1,815,000);
- investment properties with a value of approximately RMB45,628,629,000 (December 31, 2018: RMB45,421,140,000);
- properties under development for sales with a carrying value of approximately RMB2,414,521,000 (December 31, 2018: RMB2,413,980,000);
- properties held for sales with a carrying value of approximately RMB181,337,000 (December 31, 2018: RMB181,337,000); and
- pledged bank deposits of approximately RMB24,400,000 (December 31, 2018: RMB24,400,000).

13. BORROWINGS — continued

Other borrowings — continued

As at June 30, 2019, the Group has four (December 31, 2018: four) significant secured fixed rate other borrowings from three lenders (December 31, 2018: three lenders), which are denominated in RMB, carrying interests at fixed rates ranging from 7.2% to 13.9% (December 31, 2018: 7.2% to 13.9%) per annum. At June 30, 2019 and December 31, 2018, the carrying amount of such other borrowings amount to RMB4,831,101,000 (repayable on demand or within one year) and RMB4,677,983,000 (repayable on demand or within one year), respectively.

As at June 30, 2019, the carrying amount of other borrowings summarised above for which the lender has demanded repayment and/or are in dispute amounted to RMB4,831,101,000. For details, please refer to note 17.

14. 15.0% FIXED RATE SENIOR NOTES

On October 11, 2018, the Group issued approximately US$226 million principal amount of the fixed-rate senior notes which contain two components, liability and early redemption options.

The notes bear interest at a fixed-rate of 15.00% per annum. The interest charged for the period is calculated by applying an effective interest rate of approximately 15.21% per annum. Interest on the notes is payable on April 15 and October 15 of each year. The notes will mature on October 15, 2021. The notes are guaranteed by certain of the Company's subsidiaries and Mr. Wong Sai Chung, the managing director of the Company.

Details of the fixed rate senior notes are set out in the Company's annual report for the year ended December 31, 2018 dated March 29, 2019.

The directors of the Company consider that the fair values of the redemption options, at June 30, 2019 and at December 31, 2018 are insignificant.

15. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

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

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

15. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE — continued

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

The convertible note is denominated in HK$ and contain two components, debt component and conversion option derivative. The effective interest rate of the debt component is 18.838% per annum. The conversion option derivative, which is a financial liability, is measured at fair value with changes in fair value recognized in profit or loss.

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

	Debt component	Conversion option derivative	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2018	393,425	2,517	395,942
Interest charged	45,681	—	45,681
Gain arising on changes in fair value	—	(2,456)	(2,456)
Settlement of convertible note (Note 20(i))	(443,656)	—	(443,656)
Effect of foreign currency exchange differences recognized to profit or loss	4,550	(61)	4,489
As at December 31, 2018	—	—	—

16. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At January 1, 2018, June 30, 2018, December 31, 2018, January 1, 2019 and June 30, 2019	5,000,000,000	500,000
Issued and fully paid:		
At January 1, 2018, June 30, 2018, December 31, 2018, January 1, 2019 and June 30, 2019	1,809,077,000	180,907
Presented in condensed consolidated interim financial statements as:		
At January 1, 2018, June 30, 2018, December 31, 2018, January 1, 2019 and June 30, 2019		RMB170,073,000

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

17. CONTINGENT LIABILITIES

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

Guarantee

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Guarantees given to banks in connection with credit facilities granted to the purchasers of the Group's properties (Note)	**443,899**	473,086

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

Legal disputes

As at June 30, 2019, the Group is subjected to several legal claims mainly in relation to disputes under construction contracts in respect of its various property development projects which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, properties under development for sales and properties held for sale in an aggregate amount of approximately RMB24 million (December 31, 2018: RMB41 million) and the withdrawal of bank deposits of approximately RMB3 million (December 31, 2018: RMB5 million) as at June 30, 2019. In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards. Pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors. In addition, the Group has already made or is in the process of making counter-claims for compensation from the construction contractors for causing delay in delivering of the properties to the end customers of the Group. The management has sought advices from the independent legal advisors or internal legal counsel on these disputes or legal proceedings. As at June 30, 2019, the Group has provided construction cost liabilities amounting to RMB48 million (December 31, 2018: RMB49 million) in relation to the above mentioned construction contracts under dispute. The net financial effect of both claims and counter-claims is considered insignificant.

Outstanding legal claims that are still subject to legal proceedings and/or appeal amounted to approximately RMB37 million (December 31, 2018: RMB74 million) in aggregate. No further provision has been made in the condensed consolidated interim financial statements in respects of these claims. The directors of the Company are of the opinion that the Group has reasonable ground to defend those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

17. CONTINGENT LIABILITIES — continued

Legal disputes — continued

Except for the matters disclosed elsewhere, the Group has the following litigations with some of its lenders:

1) On August 28, 2015, Shanghai Jingan-Concord Real Estate Co., Ltd. ("Shanghai Jingan") and Shanghai Minhang Concord Property Development Co., Ltd.) ("Shanghai Minhang"), each a wholly-owned subsidiary of the Company, as borrowers entered into an entrusted loan agreement with 平安大華匯通財富管理有限公司 ("PinganDahua") whereby an entrusted loan in the aggregate amount of RMB1.3 billion was granted, originally repayable by August 31, 2018 and extended verbally to October 15, 2018. Since then, the above parties have been in negotiations on new repayment arrangements. PinganDahua, without notice to Shanghai Jingan and Shanghai Minhang, made an application to the notary office for an execution certificate at the end of December 2018 and filed an application for enforcement with the High Court of Shanghai. At February 26, 2019, the Company consulted with and obtained independent legal advice from PRC legal counsel, which is of the view that, given the actions of PinganDahua are misleading and constitute misconduct on its part, it is unlikely to cause any significant losses to the Group.

   Given that the matter is currently pending commencement of judicial proceedings, for the period ended June 30, 2019 and up to the date of this report, no payments have been made to PinganDahua. Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned is unlikely to have any material adverse impact on the performance and financial condition of the Group. The parties are currently in the process of negotiating a settlement agreement to settle the indebtedness. The settlement agreement will be filed with the High Court of Shanghai once entered into and will accordingly resolve the above situation.

2) On November 9, 2016, Shanghai Jingan as borrower entered into an entrusted loan agreement (the "Lujiazui Entrusted Loan Agreement") with 陸家嘴國際信託有限公司 ("Lujiazui") whereby an entrusted loan in the total aggregate amount of RMB1.3 billion was granted. Three tranches of loan were due on May 23, 2019, June 6, 2019 and June 15, 2019. Pursuant to the Lujiazui Entrusted Loan Agreement, Shanghai Jingan was required to pay a deposit of RMB124 million to Lujiazui by December 15, 2018, failing which Lujiazui can demand the immediate repayment of the total loan together with liquidated charges and interest. The full RMB124 million was not paid by due date and since December 4, 2018, Shanghai Jingan and Lujiazui have been in discussion to make a partial prepayment of the loan principal by utilising proceeds from sale of certain residential properties which have been charged to Lujiazui as security for the loan. Without notice to Shanghai Jingan, Lujiazui filed a civil claim claiming the amount of RMB1.24 billion against Shanghai Jingan with the High Court of Shanghai on December 20, 2018 (the "Claim"). On April 15, 2019, the High Court of Shanghai has made the first instance judgment that the Claim represents the first notice given to Shanghai Jingan requesting for early repayment and the non-repayment upon the receipt of the Claim constitute breach of the Lujiazui Entrusted Loan Agreement and Shanghai Jingan shall be liable to payment of default interest from December 30, 2018, being the date of receipt of the Claim by Shanghai Jingan. Shanghai Jingan has filed an appeal, among other matters, over the calculation of penalty interest set out in the first instance judgment and the case is currently in the second instance of the court. Given that the matter is currently in the second instance of the court, for the period to June 30, 2019, no payments have been made to Lujiazui. Concurrently, the parties are also in the process of negotiating a settlement to settle the indebtedness.

17. CONTINGENT LIABILITIES — continued

Legal disputes — continued

Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

3) On September 27, 2017, Shanghai Jingan as a borrower entered into an entrusted loan agreement (the "JIC Trust Entrusted Loan Agreement") with 中建投信託股份有限公司 ("JIC Trust") whereby an entrusted loan in the aggregate amount of RMB1.2 billion was granted in twelve tranches. The loan tenure for each tranche is 24 months and will be due from October 13, 2019 to December 29, 2019 (the "Loan Term"). Pursuant to the JIC Trust Entrusted Loan Agreement, the lender has the right to demand immediate repayment of the loan if the lender has doubt over the borrower's financial ability to repay the loan. On February 14, 2019, Shanghai Jingan received a notice from JIC Trust informing that the JIC Trust Entrusted Loan Agreement would be terminated on February 18, 2019 and the loan would be due on the same day. As the Loan Term has not yet expired, Shanghai Jingan did not repay the loan as demanded. On February 22, 2019, JIC Trust filed a civil claim against Shanghai Jingan and the Company declaring the termination of the JIC Trust Entrusted Loan Agreement and the loan due (the "JIC Trust Claim"). The amount of claim is RMB1,452.35 million. The JIC Trust Claim is currently pending commencement of judicial proceedings.

   The Company has consulted with and obtained independent legal advice from PRC legal counsel, which is of the opinion that given the loan has yet been due, the claim is unlikely to cause any significant losses to the Group. Based on the aforesaid and according to the relevant information available as at the date of this report, the directors consider the abovementioned incident is unlikely to have any material adverse impact on the performance and financial condition of the Group. The Company will take appropriate measures to resolve the above situation.

18. OTHER COMMITMENTS

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Construction commitment contracted but not provided for	**1,783,315**	2,195,366

19. OPERATING LEASE COMMITMENTS

As lessor

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

	June 30, 2019 RMB'000 (unaudited)	December 31, 2018 RMB'000 (audited)
Within one year	**657**	615
In the second to fifth year inclusive	**2,983**	2,666
After the fifth year	**1,041**	1,339
	4,681	4,620

Leased properties have committed tenants from ten (December 31, 2018: ten) years.

As lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended June 30, 2018 RMB'000 (unaudited)
Premises	2,066

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

	December 31, 2018 RMB'000 (audited)
Within one year	4,547
In the second to fifth year inclusive	3,174
	7,721

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and are fixed for an average of three years as at December 31, 2018.

20. RELATED PARTY TRANSACTIONS

(i) Amount due to a shareholder

Amount due to a shareholder, Mr. Wong, is non-trade in nature, unsecured, interest-free and repayable on demand while request for payment will only be made when the Group has excess cash.

During the year ended December 31, 2018, upon the maturity of the convertible note issued by the Company on August 14, 2012 and registered in the name of Hillwealth, the outstanding principal amount of convertible note together with all interest accrued in the total sum of HK$525,000,000 (equivalent to RMB443,656,000) was settled by the Company with Hillwealth by the way of an unsecured, interest-free loan advanced to the Company by Mr. Wong for the same amount.

(ii) Other transactions

The Group had the following transactions during both periods:

Nature of transactions	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Office premises expenses (Note)	**14**	13

Note: On July 22, 2014, a tenancy agreement (the "Tenancy Agreement") for the use of the principal place of business of the Company in Hong Kong was entered into between the landlord, a subsidiary of Pacific Concord Holding Limited ("PCH") of which ultimate shareholder is Mr. Wong, and the Group. The Tenancy Agreement is effective from August 1, 2014 to July 31, 2017 and a new agreement is entered which is effective from August 1, 2017 to July 31, 2020.

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

(iii) Compensation of key management personnel

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

	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Short-term benefits	**639**	609

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

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

The classification of an item into the above level is based on the lowest level of input used that had a significant effect on the fair value measurement of the item. Transfer of items between levels are recognised in the period they incurred.

There is no transfer between different levels of the fair value hierarchy for the periods ended June 30, 2019 and 2018.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS — continued

Reconciliation of Level 3 fair value measurements of conversion option derivative

	RMB'000
As at January 1, 2018	2,517
Fair value gain recognized in profit or loss	(2,456)
Effect of foreign currency exchange differences recognized to profit or loss	(61)
As at December 31, 2018	—

Fair value measurements and valuation processes

The Group engages qualified external valuers to perform valuations for financial instruments. At the end of each reporting period, the senior management works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Discussion of valuation process and results are held between senior management and the directors of the Company at least twice a year. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

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

Except for the fixed-rate senior notes, the directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortized cost in the condensed consolidated interim financial statements approximate their fair values. At June 30, 2019, the carrying amount of the fixed-rate senior notes was approximately RMB1,573,905,000 (December 31, 2018: RMB1,576,322,000) and the fair values of fixed-rate senior notes (categorized within Level 2 hierarchy) of approximately RMB1,620,112,000 (December 31, 2018: RMB1,561,227,000) have been determined using discounted cash flows at an appropriate debt yield which being the sum of base interest rate, representing the U.S. risk-free rate of 1.75% (December 31, 2018: 1.67%), and the spread of 10.27% (December 31, 2018: 12.39%) derived from the Hull-White One-Factor Model. The fair values of other financial assets and financial liabilities (categorized within Level 3 hierarchy) have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.