



珠光控股
ZHUGUANG HOLDINGS



ZHUGUANG HOLDINGS GROUP COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Stock Code: 1176

Interim Report
2019



* For identification purposes only

CONTENTS

	<i>Pages</i>
Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Condensed Consolidated Statement of Profit or Loss	62
Condensed Consolidated Statement of Comprehensive Income	63
Condensed Consolidated Statement of Financial Position	64
Condensed Consolidated Statement of Changes in Equity	67
Condensed Consolidated Statement of Cash Flows	69
Notes to Interim Financial Information	71
Other Information	127

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chu Hing Tsung
(alias Mr. Zhu Qing Yi) (*Chairman*)
Mr. Liu Jie (*Chief Executive Officer*)
Mr. Liao Tengjia (*Deputy Chairman*)
Mr. Huang Jiajue (*Deputy Chairman*)
Mr. Chu Muk Chi (alias Mr. Zhu La Yi)
Ms. Ye Lixia

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wo Ping *JP*
Mr. Wong Chi Keung
Dr. Feng Ke

AUDIT COMMITTEE

Mr. Leung Wo Ping *JP*
(*Committee Chairman*)
Mr. Wong Chi Keung
Dr. Feng Ke

REMUNERATION COMMITTEE

Mr. Wong Chi Keung
(*Committee Chairman*)
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

NOMINATION COMMITTEE

Mr. Wong Chi Keung
(*Committee Chairman*)
Mr. Leung Wo Ping *JP*
Mr. Huang Jiajue

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Mr. Chan Chit Ming, Joeie

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PRINCIPAL BANKERS

Industrial and Commercial Bank of
China (Asia) Limited
Agricultural Bank of China
Hong Kong Branch
China Construction Bank (Asia)
Corporation Limited
The Hongkong and Shanghai
Banking Corporation Limited
Bank of China Limited

WEBSITE

www.zhuguang.com.hk

STOCK CODE

1176

The board (“Board”) of directors (“Directors”) of Zhuguang Holdings Group Company Limited (“Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 (“Period Under Review”) together with the comparative figures for the corresponding period in 2018 as follows:

FINANCIAL HIGHLIGHTS

RESULTS

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue by operating segment:		
— property development	1,606,812	1,139,246
— property investment	86,864	81,782
— project management services	509,022	252,572
Fair value gain on investment properties, net	14,515	66,277
Profit for the period	347,802	4,364
Profit/(loss) for the period attributable to equity holders of the parent	358,124	(53,003)

	At	
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Total assets	36,269,856	35,808,435
Total liabilities	29,041,891	28,960,128
Total equity	7,227,965	6,848,307

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, faced with the growing economic downward pressure, the central government of the People's Republic of China ("PRC") pledged to maintain supportive policies toward private businesses, with tax cuts to ease the tax burdens for the private sector, incentives to boost innovation and stimulus to shore up confidence and stabilise the economy in the PRC. During the first half of 2019, the Group has strengthened its sales efforts for its projects under development and therefore achieved a steady sales volume in its contracted sales.

Property Development and Sales

During the Period Under Review, the Group continued its focus on the first-tier and key second-tier cities in the PRC with potential growth in demand for properties. The Group has achieved contracted sales of approximately HK\$1,520,884,000 and contracted gross floor area ("GFA") of approximately 100,654 square meters ("sqm") during the Period Under Review, representing increases of approximately 49.1% and 10.5% respectively, compared to those in the corresponding period in 2018. The details of the property sales contracted and the contracted GFA sold during the Period Under Review are set out below:

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Projects	Contracted sales (HK\$'000)	Contracted GFA sold (sqm)
Pearl Xincheng Yujing (“Xincheng Yujing”)	146,593	15,289
Zhuguang Yujing Scenic Garden (“Yujing Scenic Garden”)	569,258	34,218
Pearl Yunling Lake	155,937	8,969
Pearl Tianhu Yujing Garden (“Tianhu Yujing”)	14,503	1,183
Pearl Yijing	286,964	19,110
Project Tian Ying	198,480	14,049
Hua Cheng Yujing Garden	26,804	272
Yujing Yayuan	63,203	3,864
	1,461,742	96,954
Car Parks	59,142	3,700
	1,520,884	100,654

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

As at 30 June 2019, the Group owned the following property development projects, the details of which are as follows:

Yujing Scenic Garden **100% interest**

“Yujing Scenic Garden” is located at Provincial Highway G105 (“Highway G105”) line at Jiulibu District, Jiangpu Town, Conghua, Guangzhou, the PRC, which is well connected via a number of highways to and from Guangzhou. Yujing Scenic Garden is a 20-minute drive from downtown Conghua and a 10-minute drive from Wenquan Town, Conghua, with a site area of approximately 294,684 sqm, which is being developed into a commercial and residential complex, comprising residential buildings and a street-level commercial podium, service apartments and car parks. The total GFA available for sale is approximately 758,044 sqm, which comprises four phases of development. District II of Phase IV with a total GFA available for sale of approximately 85,935 sqm is still under construction and will be delivered in 2020. Apart from the properties developed for sale under Phases I to IV, Yujing Scenic Garden also comprises a two-storey commercial building with a total GFA of approximately 3,307 sqm, which is held by the Group for investment purposes.

The street-level commercial podium with a total GFA of approximately 2,416 sqm was leased out during the Period Under Review. During the Period Under Review, contracted sales of approximately HK\$569,258,000 with GFA of approximately 34,218 sqm were recorded with respect to Yujing Scenic Garden.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Tianhu Yujing 100% interest

“Tianhu Yujing” is located at Shui Di Village, Jiulibu District, Wenquan Town, Conghua, Guangzhou, the PRC, with a site area of approximately 55,031 sqm. The land of this project is located adjacent to Yujing Scenic Garden, and the Group has developed this land together with Yujing Scenic Garden to expand the Group’s development and presence in Conghua. The project is developed into 5 blocks of 32-storey modern residential buildings and a street-level commercial podium with total GFA available for sale of approximately 186,895 sqm. The development is divided into two phases. The total GFA available for sale under Phase I and Phase II is approximately 97,183 sqm and 89,712 sqm respectively.

The aggregate GFA delivered under Phase I was approximately 91,334 sqm, of which approximately 1,130 sqm was delivered during the Period Under Review. The aggregate GFA delivered under Phase II was approximately 42,095 sqm, of which approximately 1,573 sqm was also delivered during the Period Under Review. The remaining GFA available for sale under Phase I and Phase II is expected to be delivered in the second half of 2019. During the Period Under Review, contracted sales of approximately HK\$14,503,000 with GFA of approximately 1,183 sqm were recorded with respect to Tianhu Yujing.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Pearl Yunling Lake 100% interest

“Pearl Yunling Lake” is located at Provincial Highway S355 line at Jiekou Street, Conghua, Guangzhou, the PRC, which is adjacent to the Fengyunling Forest Park, and is the main transportation link between Conghua and downtown Guangzhou. The project site area is approximately 200,083 sqm and the total GFA is expected to be approximately 125,908 sqm. The development is divided into two phases, with Phase I comprising 57 villas and 5 apartment buildings, with an aggregate GFA of approximately 41,913 sqm, and Phase II comprising 44 villas, 3 apartment buildings and a hotel, with an aggregate GFA of approximately 83,995 sqm. Phase I with a total GFA available for sale of approximately 39,046 sqm and Phase II with a total GFA available for sale of approximately 56,084 sqm were launched for sale in the first and third quarters of the financial year ended 31 December 2017 (“FY2017”) respectively, whilst the hotel will be retained as a long-term asset of the Group.

The aggregate GFA delivered under Phase I was approximately 18,867 sqm, of which approximately 784 sqm was delivered during the Period Under Review. The aggregate GFA delivered under Phase II was approximately 5,085 sqm. The remaining GFA available for sale under Phase I and Phase II is expected to be delivered in the second half of 2019. During the Period Under Review, contracted sales of approximately HK\$155,937,000 with GFA of approximately 8,969 sqm were recorded with respect to Pearl Yunling Lake.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Xincheng Yujing 100% interest

“Xincheng Yujing” was acquired by the Group in September 2016. It is located at Zhong Su Shang Wei* (種王上圍), Sunshine Village* (陽光村), Tang Nan Town* (湯南鎮), Fengshun County* (豐順縣), Meizhou City, Guangdong Province, the PRC (next to Line G235), a county famous for its hot spring resources which is a major tourism attraction. The project site area is approximately 280,836 sqm and a total GFA of approximately 384,041 sqm is expected to be developed. The project is being developed into various types of villas, high-rise apartment buildings and an ancillary commercial development. The development of the project is divided into three phases. Phase I with a total GFA available for sale of approximately 56,797 sqm commenced pre-sale during FY2017 with delivery commencing in the financial year ended 31 December 2018 (“FY2018”). Phase II commenced pre-sale in FY2017. The villas under Phase II were completed with delivery commencing in the first half of 2019. During the Period Under Review, an aggregate GFA of approximately 28,492 sqm was delivered under Phase II. The remaining high-rise apartment buildings under Phase II are expected to be completed and to commence delivery in the second half of 2019. Phase III is currently under development and is expected to be completed in 2020 to 2021. The ancillary commercial building plus a basement with a total GFA of approximately 10,084 sqm were leased out during the Period Under Review. During the Period Under Review, contracted sales of approximately HK\$146,593,000 with GFA of approximately 15,289 sqm were recorded with respect to Xincheng Yujing.

** English name is translated for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Pearl Yijing 100% interest

“Pearl Yijing” is located at No. 168 Xinkai Street, Xianghe County, Hebei Province, the PRC, with a site area of approximately 63,044 sqm and a total GFA available for sale of approximately 165,058 sqm. The project was developed into two phases with several residential buildings and street-level commercial areas. A total GFA available for sale of approximately 80,143 sqm under Phase I was delivered, and the remaining part of Phase I with a total GFA available for sale of approximately 2,049 sqm is expected to be completed in the second half of 2019. A total GFA available for sale of approximately 72,028 sqm under Phase II was delivered, of which approximately 46,367 sqm was delivered during the Period Under Review, and the remaining part of Phase II with a total GFA available for sale of approximately 910 sqm is currently under development and is expected to be completed in the second half of 2019. During the Period Under Review, contracted sales of approximately HK\$286,964,000 with GFA of approximately 19,110 sqm were recorded with respect to Pearl Yijing.

Project Tian Ying 100% interest

“Project Tian Ying” is located in Jiang Pu Street, Conghua, Guangzhou, the PRC, and is next to Highway G105, which is only a 10-minute drive and a one-hour drive from Conghua central business district and Guangzhou City, respectively. The site area of the project is approximately 22,742 sqm and the GFA available for development is approximately 74,213 sqm. The project will be developed into a stylish low-density residential complex with a commercial podium and certain public facilities. The project is currently under development and is expected to be completed in the second half of 2019. During the Period Under Review, contracted sales of approximately HK\$198,480,000 with GFA of approximately 14,049 sqm were recorded with respect to Project Tian Ying.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Zhukong International 80% interest

“Zhukong International” is located at Lot A2-1, Zhujiang New Town, Tianhe District, Guangzhou, the PRC, at the junction of Guangzhou Avenue* (廣州大道) and Huang Pu Da Dao* (黃埔大道), which is a 35-storey high-rise commercial complex, including a 6-storey commercial podium, a 29-storey Grade A office building and a 3-storey underground car park. The complex was completed in 2015 with a site area of approximately 10,449 sqm and a total GFA (including carpark areas) available for sale and leasing of approximately 109,738 sqm. The aggregate GFA of the office building and carparks sold during the period from 2014 to the end of the Period Under Review was approximately 62,686 sqm, and GFA of approximately 3,134 sqm of this property is still available for sale or leasing. The Group has designated GFA of approximately 43,918 sqm of this property as investment properties held for long-term investment purpose.

Central Park 100% interest

“Central Park” is located at Lot H3-3, Zhujiang New Town, Tianhe District, Guangzhou, the PRC with a site area of approximately 3,430 sqm, and a total GFA available for sale of approximately 28,908 sqm thereof has been developed into a 30-storey building, including service apartments, a street-level commercial podium and a 4-storey underground car park. The aggregate GFA available for sale of the service apartments delivered was approximately 23,631 sqm. The Group has designated GFA of approximately 2,746 sqm of this property as investment properties held for long-term investment purpose.

** English name is translated for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Nansha Scenic 100% interest

“Nansha Scenic” is located at Jinzhou Main Street, Nansha District, Guangzhou, the PRC, which is the central business district in Nansha. As at 30 June 2019, the project was completed and only certain car parks still remained available for sale.

Hua Cheng Yujing Garden 100% interest

“Hua Cheng Yujing Garden” was acquired by the Group in FY2018. It is located at Zhujiang Xincheng, Tianhe District, Guangzhou City, Guangdong Province, the PRC, with a site area of approximately 60,237 sqm, and the total GFA available for development that belongs to the Group is approximately 109,113 sqm. Out of the GFA of approximately 109,113 sqm, a GFA of approximately 48,044 sqm is attributable to a commercial and residential complex which comprises carparks, residential buildings, shopping malls and office premises, and a GFA of approximately 61,069 sqm is attributable to a commercial complex which comprises shopping malls and office premises. During the Period Under Review, contracted sales of approximately HK\$26,804,000 with GFA of approximately 272 sqm were recorded with respect to Hua Cheng Yujing Garden.

Meizhou Chaotang Project 100% interest

“Meizhou Chaotang Project” is located at Chaotang Village, Chengdong Town, Meixian District, Meizhou City, the PRC. The site area and the GFA available for development under Phase I of the project are approximately 46,793 sqm and approximately 97,617 sqm, respectively. Phase I of the project will be developed into a number of villas of different types in addition to a hotel. Pre-sale of the villas is expected to commence in the second half of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Development and Sales *(continued)*

Yujing Yayuan 50% interest

“Yujing Yayuan” is located at Guoji, Fuyong, Nanqu, Zhongshan City, the PRC. The site area and the GFA available for development of this project are approximately 15,745 sqm and approximately 50,471 sqm, respectively. This project which will be developed into five blocks of modern residential buildings, a street-level commercial podium and an underground car park, has commenced pre-sale in March 2019. During the Period Under Review, contracted sales of approximately HK\$63,203,000 with GFA of approximately 3,864 sqm were recorded with respect to Yujing Yayuan.

Land Bank

It is the Group's strategy to maintain a sufficient land bank and design accurate urban layout to support the Group's own development pipeline for at least the next three to five years. The Group has actively expanded its land reserves through various channels, including participation in government public auctions, urban redevelopment projects and acquisition of other property development projects. During the Period Under Review, the Group did not acquire any additional land but certain potential projects were under negotiation. The Group will continue to explore new opportunities in cities in the PRC in which the Group has already invested, as well as new cities in the PRC with growth potential and the best investment value.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Property Investments

As at 30 June 2019, the Group owned (1) certain floors of Royal Mediterranean Hotel (“RM Hotel”) located at 518 Tianhe Road, Tianhe District, Guangzhou, the PRC, with GFA of approximately 18,184 sqm (31 December 2018: 18,184 sqm); (2) “Zhukong International” with GFA of approximately 43,918 sqm (31 December 2018: 43,918 sqm); (3) certain floors of the commercial complex in Hua Cheng Yujing Garden with GFA of approximately 32,051 sqm (31 December 2018: 30,604 sqm); and (4) certain commercial properties with GFA of approximately 18,114 sqm (31 December 2018: 14,310 sqm) as investment properties. During the Period Under Review, RM Hotel, Zhukong International and the commercial properties were partly leased out with total rental income of approximately HK\$86,864,000 generated, representing an increase of approximately 6.2% as compared to that of approximately HK\$81,782,000 for the same period in 2018. The existing investment properties held by the Group are intended to be held for medium-term to long-term investment purposes. The Group will continue to seek high quality properties with potential appreciation in value for investment purposes and build up a portfolio that will generate steady cash flows to the Group in the future.

Project Management Services

During the Period Under Review, the Group provided funding and project management services to its customers for property development projects and urban redevelopment projects. The Group is entitled to project management services income based on the terms of the entrusted construction and management service agreements entered into with these customers and such income enables the Group to broaden its income source. The Group recorded project management services segment results of approximately HK\$998,505,000 for the Period Under Review, comparing to that of approximately HK\$252,572,000 for the same period in 2018. The Group will continue to utilise its expertise in project management in order to maintain a steady income stream in the future.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EVENTS AFTER THE PERIOD UNDER REVIEW

As the Company may need further time to fulfil its payment obligations under the first tranche (“2016 First Tranche Notes”) of the senior secured guaranteed notes issued in 2016 (“2016 Senior Notes”) which was originally due on 3 August 2019, on 2 August 2019, the Company, Blooming Rose Enterprises Corp. (“Blooming Rose”), Heroic Day Limited (“Heroic Day”) and CCB International Overseas Limited (together with Blooming Rose and Heroic Day, collectively constituting the investors holding at least 85% of the 2016 Senior Notes), Rong De Investments Limited (融德投資有限公司) (“Rong De”, the controlling shareholder of the Company), Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi, Top Perfect Development Limited (泰恒發展有限公司) (“Top Perfect”), Ever Crown Corporation Limited (冠恒興業有限公司) (“Ever Crown”), East Orient Investment Limited (達東投資有限公司) (“East Orient”), Fully Wise Investment Limited (惠豐投資有限公司) (“Fully Wise”), Polyhero International Limited (寶豪國際有限公司) (“Polyhero”), Top Asset Development Limited (通利發展有限公司) (“Top Asset”), Vanco Investment Limited (雅豪投資有限公司) (“Vanco”), Ai De Investments Limited (靄德投資有限公司) (“Ai De”), Profaith International Holdings Limited (盈信國際控股有限公司) (“Profaith”), South Trend Holdings Limited (南興控股有限公司) (“South Trend”), Cheng Chang Holdings Limited (誠昌控股有限公司) (“Cheng Chang”), Zhuguang Group Limited (珠光集團有限公司) (“ZG Group”), Gains Wide Holdings Limited (利博控股有限公司) (“Gains Wide”), Talent Wide Holdings Limited (智博控股有限公司) (“Talent Wide”), Capital Fame Investments Limited (嘉鋒投資有限公司) (“Capital Fame”), Speedy Full Limited (速溢有限公司) (“Speedy Full”) and Diamond Crown Limited (毅冠有限公司) (“Diamond Crown”), entered into an amendment deed to amend and supplement the terms and conditions attached to the certificates of the 2016 Senior Notes, to the effect that with effect from 3 August 2019, (i) the maturity date of the 2016 First Tranche Notes has been extended from 3 August 2019 to 22 September 2019, so that the entire 2016 Senior Notes issued (consisting of two tranches in aggregate) will mature on 22 September 2019; and (ii) the Company may effect the voluntary redemption of the 2016 Senior Notes in full on giving three business days’ notice (instead of giving not less than three months’ notice) to the investors of the 2016 Senior Notes. Save as disclosed above, all the terms and conditions of the 2016 Senior Notes remain unchanged and shall continue to be in full force and effect.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EVENTS AFTER THE PERIOD UNDER REVIEW *(continued)*

As at the date of this interim report, the Company was in negotiation with certain potential independent third party investors in relation to the possible issue of notes by the Company (“Possible Issue”). However, the Company has not entered into any definitive and/or legally binding agreements or contracts in respect of the Possible Issue. The Company will make further announcement(s) in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) as and when legally binding agreement(s) in relation to the Possible Issue is/are entered into.

OUTLOOK

Looking into the second half of 2019, with the ongoing China-United States trade tensions and continuance of the US monetary policy normalisation process, investor sentiment appears to have deteriorated. As a result, the PRC will be facing an increasingly hostile international environment and the immediate economic threat posed by the China-United States trade war has caused negative impacts on the industries of both nations and the global trade. The uncertainty in the direction of the control policies to be released by the central government of China will lead to increasingly fierce industry competition. With the real estate industry being one of the most important sectors of the Chinese economy, it is expected that the PRC government will continue to steadily implement its control policies in relation to the property market and will establish a long-term operation mechanism for the real estate industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

OUTLOOK *(continued)*

In view of the above external factors that affect the real estate industry, the Group will continue to actively participate in urban renewal projects and construction projects in featured small towns, acquire quality land reserves in regions with high values, further focus on its business in first-tier cities and the Guangdong-Hong Kong-Macao Greater Bay Area and expand its businesses in satellite cities of first-tier cities and key second-tier cities in the PRC. In the second half of 2019, the Group's inventory for sale will still be its completed projects in Guangzhou, and the Group will continue to step up its efforts to market its projects in the Conghua area in Guangzhou. As at the date of this interim report, the Group's saleable inventory in the Conghua area is relatively abundant. As a result, Conghua will still be a focused sales area of the Group in the second half of 2019, where the Group will continue to pay close attention to the sales in this market.

In terms of land acquisition, the Group will continue to implement its strategy under which it will focus on urban renewal projects to support its medium-term to long-term development, while relying on additional light-asset projects to meet its short-term needs. As the Group will acquire land resources mainly through urban renewal projects in the future, it will leverage on the competitive edge and strengths of the Company to boost its urban renewal operations. In addition, the Group will maintain its development at an appropriate scale and focus on delivering high-quality projects to raise its brand awareness and reputation.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW

Revenue

During the Period Under Review, the Group's revenue by operating segment included revenue from property development, property investment and project management services. The total revenue of the Group for the Period Under Review was approximately HK\$2,202,698,000 (six months ended 30 June 2018: HK\$1,473,600,000), which represented an increase of approximately 49.5% as compared to that for the same period in 2018. Revenue from property development for the Period Under Review amounted to approximately HK\$1,606,812,000 (six months ended 30 June 2018: HK\$1,139,246,000). The increase was mainly due to the increase in the average selling price of the properties delivered during the Period Under Review as compared to that of the same period in 2018. The Group recorded an increase of 6.2% in rental income for the Period Under Review, as compared to that for the same period in 2018. The rental income increased from approximately HK\$81,782,000 for the six months ended 30 June 2018 to approximately HK\$86,864,000 for the Period Under Review, mainly due to the additional GFA of investment properties leased out by the Group during the Period Under Review. The income from project management services segment contributed approximately HK\$509,022,000 (six months ended 30 June 2018: HK\$252,572,000) to the total revenue of the Group for the Period Under Review. As a result of the change in accounting policy and the adoption of HKFRS 9 in FY2018 ("Change in Accounting Policy"), the trade and other receivables in connection with certain project management services agreements were reclassified as financial assets at fair value through profit or loss. The income of the relevant project management services agreements was accounted for as change in fair value of financial assets at fair value through profit or loss during the Period Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Gross profit and margin

For the Period Under Review, the Group recorded a gross profit of approximately HK\$1,072,427,000 (six months ended 30 June 2018: HK\$835,858,000). The increase was mainly due to the net effect of (1) recognition of finance component of income from urban redevelopment projects; (2) the decrease in the gross profit margin of sales of properties during the Period Under Review, as compared to that during the corresponding period in 2018; and (3) the Change in Accounting Policy, resulting in the income from certain project management services agreements being recognised as change in fair value of financial assets at fair value through profit or loss during the Period Under Review, as opposed to the same being recognised as revenue during the corresponding period in 2018.

Fair value gain on investment properties, net

For the Period Under Review, the fair value gain on investment properties, net, recorded by the Group amounted to approximately HK\$14,515,000 (six months ended 30 June 2018: HK\$66,277,000), representing a decrease of approximately 78.1% as compared to that of the corresponding period in 2018. The decrease in fair value gain on investment properties, net was mainly due to the property market, after being buoyant in preceding periods, showing signs of moderation and the depreciation of the Renminbi (“RMB”) against the Hong Kong dollar (“HK\$”) during the Period Under Review.

Other income and gains

Other income and gains of the Group increased to approximately HK\$216,555,000 during the Period Under Review (six months ended 30 June 2018: HK\$76,938,000). The increase was primarily due to the increase in interest income earned during the Period Under Review as compared to that in the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Administrative expenses and selling and marketing costs

Administrative expenses and selling and marketing costs of the Group increased from approximately HK\$118,237,000 for the six months ended 30 June 2018 to approximately HK\$132,006,000 for the Period Under Review. The increase was primarily due to the increase in the selling and marketing costs incurred to boost the contracted sales during the Period Under Review.

Other expenses

Other expenses of the Group increased from approximately HK\$29,530,000 for the six months ended 30 June 2018 to approximately HK\$135,377,000 for the Period Under Review. The increase was mainly attributable to the increase in foreign exchange loss as a result of the depreciation of the RMB against the HK\$ during the Period Under Review as compared to that in the corresponding period in 2018 and the impairment loss of other receivables and deposits following the expected credit loss assessment carried out.

Change in fair value of financial assets at fair value through profit or loss

Due to the Change in Accounting Policy in FY2018, trade and other receivables in connection with certain project management service agreements under which the Group agreed to provide funding and management services in relation to property development projects, were reclassified to financial assets at fair value through profit or loss, resulting in the income of certain project management services agreements of approximately HK\$389,483,000 being recognised as change in fair value of financial assets at fair value through profit or loss during the Period Under Review (six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Share of profit of an associate

Share of profit of an associate was approximately HK\$13,692,000 during the Period Under Review (six months ended 30 June 2018: Nil), which represented the Group's share of the profit from its associate, Silver Grant International Holdings Group Limited (銀建國際控股集團有限公司) ("Silver Grant") (formerly known as Silver Grant International Industries Limited (銀建國際實業有限公司)), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with stock code: 0171. Silver Grant and its subsidiaries are principally engaged in property investment, property leasing, other investments and production and trading of petrochemical products. The Group completed the acquisitions of approximately 29.56% interest of the issued share capital of Silver Grant on 31 October 2018 and Silver Grant has become an associate of the Group since then.

Finance costs

Finance costs for the Period Under Review were approximately HK\$752,904,000 (six months ended 30 June 2018: HK\$611,069,000), which were made up of interest expenses incurred during the Period Under Review after deduction of the interest expenses capitalised to development costs. The increase in finance costs was mainly due to the increase in bank and other borrowings of the Group during the Period Under Review as compared to those for the same period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Income tax expense

Income tax expense comprised corporate income tax (“CIT”) and land appreciation tax (“LAT”) in the PRC and deferred tax. CIT of approximately HK\$140,558,000 (six months ended 30 June 2018: HK\$196,397,000), LAT of approximately HK\$116,235,000 (six months ended 30 June 2018: HK\$17,316,000) and deferred tax of approximately HK\$81,790,000 (six months ended 30 June 2018: HK\$2,160,000) accounted for the Group’s total income tax of approximately HK\$338,583,000 for the Period Under Review (six months ended 30 June 2018: HK\$215,873,000). The increase in total income tax expense for the Period Under Review was mainly due to the net effect of (i) the increase in tax-deductible expenses incurred during the Period Under Review, as compared to those incurred in the corresponding period in 2018; (ii) the increase in the provision of deferred tax made for the Period Under Review, as compared to that for the corresponding period in 2018; and (iii) the decrease in income generated during the Period Under Review which was not subject to income tax, as compared to that generated in the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Profit for the period

The Group's profit for the Period Under Review was approximately HK\$347,802,000 (six months ended 30 June 2018: HK\$4,364,000), which represented a significant increase of approximately 7,869.8% as compared to that for the same period in 2018. The increase in profit was mainly attributable to (i) the increase in the revenue earned during the Period Under Review to approximately HK\$2,202,698,000 (six months ended 30 June 2018: HK\$1,473,600,000); (ii) the recognition of the income from certain project management services agreements of approximately HK\$389,483,000 as change in fair value of financial assets at fair value through profit or loss during the Period Under Review, as opposed to the same being recognised as revenue during the six months ended 30 June 2018; and (iii) the share of profit of an associate recognised during the Period Under Review, which was absent in the six months ended 30 June 2018, which were partially offset by (1) the increase in finance costs due to the increase in bank and other borrowings of the Group during the Period Under Review to approximately HK\$752,904,000 (six months ended 30 June 2018: HK\$611,069,000); (2) the increase in the income tax expense incurred by the Group during the Period Under Review to approximately HK\$338,583,000 (six months ended 30 June 2018: HK\$215,873,000).

Treasury and funding policies

The Group has adopted a prudent approach with respect to its treasury and funding policies. The Group's financial and fundraising activities are subject to effective centralised management and supervision, with an emphasis on risk management and transactions that are directly related to the business of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Cash position

As at 30 June 2019, the Group's bank and cash balances (including restricted cash and term deposits with initial terms of over three months) amounted to approximately HK\$4,628,433,000 (31 December 2018: HK\$6,993,085,000). The cash and cash equivalents of the Group were mainly denominated in RMB, United States dollar ("US\$") and HK\$.

Borrowings, charges on group assets and gearing ratio

The Group's bank and other borrowings comprised the following:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Bank loans — secured	4,540,681	5,661,378
Bank loans — unsecured and guaranteed	566,715	—
Senior notes — secured	3,586,005	3,551,193
Other borrowings — secured	10,193,476	9,712,584
Other borrowings — unsecured and guaranteed	220,000	220,000
	19,106,877	19,145,155

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (a) As at 30 June 2019, the Group's total borrowings were made up of financing from (i) bank loans; (ii) senior notes; and (iii) other borrowings, including trust loans, a margin loan and a term loan facility. Out of these borrowings, HK\$1,524,042,000 (31 December 2018: HK\$1,569,398,000), HK\$13,996,830,000 (31 December 2018: HK\$13,773,675,000) and HK\$3,586,005,000 (31 December 2018: HK\$3,802,082,000) were denominated in HK\$, RMB and US\$, respectively. The senior notes and other borrowings carried fixed interest rates ranging from 7.51% to 12.4% (31 December 2018: 7.51% to 12.4%). Approximately 93.6% of the bank loans carried fixed interest rates ranging from 5.27% to 11.5% (31 December 2018: 5.27% to 11.0%) while the remaining 6.4% of the bank loans carried floating interest rates.
- (b) The gearing ratio of the Group is measured by the net debt (total interest-bearing borrowings net of cash and cash equivalents, term deposits with initial terms of over three months and restricted cash) over the total capital (total equity plus net debt) of the Group. As at 30 June 2019, the gearing ratio of the Group was 67% (31 December 2018: 64%).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (c) As at 30 June 2019, the Group had outstanding secured bank loans of approximately HK\$4,540.7 million, which were secured by the following: (i) the Group's investment properties; (ii) the Group's properties under development; (iii) the Group's completed properties held for sale; (iv) the Group's term deposits; and (v) the entire equity interest of the Company's subsidiaries, 廣州珠光城市更新集團有限公司 (Guangzhou Zhuguang Urban Renewal Group Company Limited*) (formerly known as 廣州珠光置業有限公司 (Guangzhou Zhuguang Real Estate Company Limited*)) and 香河縣逸景房地產開發有限公司 (Xianghe County Yijing Property Development Company Limited*). The secured bank loans comprised (1) a revolving bank loan in the principal amount of HK\$325.3 million with the final maturity date falling due in December 2019; (2) a bank loan in the principal amount of RMB120 million repayable by instalments within 3 years with the last instalment due in July 2020; (3) a bank loan in the principal amount of RMB127 million repayable by instalments within 3 years with the last instalment due in December 2020; (4) a bank loan in the principal amount of RMB750 million due in July 2020; (5) a bank loan in the principal amount of RMB1,010 million due in August 2019; (6) a bank loan in the principal amount of RMB750 million due in September 2019; (7) a bank loan in the principal amount of RMB340 million repayable by instalments within 25 months with the last instalment due in September 2019; (8) a bank loan in the principal amount of RMB800 million repayable by instalments within 2 years with the last instalment due in March 2020; (9) a bank loan in the principal amount of RMB50 million due in June 2020; and (10) a bank loan in the principal amount of RMB300 million repayable by instalments within 3 years with the last instalment due in November 2021.

* English name is translated for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (d) As at 30 June 2019, the Group had an outstanding unsecured and guaranteed bank loan of approximately HK\$566.7 million, which was guaranteed by (i) the corporate guarantees executed by the Company, Guangdong Zhuguang Group Company Limited (“Guangdong Zhuguang Group”) and one of the subsidiaries of Guangdong Zhuguang Group; and (ii) the personal guarantees executed by the executive Director, Mr. Chu Hing Tsung. The unsecured and guaranteed bank loan had a principal amount of RMB600 million repayable by instalments within 4 years with the last instalment due in October 2021.
- (e) As at 30 June 2019, the Group had outstanding 2016 Senior Notes in the aggregate principal amount of US\$410 million (equivalent to approximately HK\$3,201.1 million), consisting of two tranches of notes in the respective principal amounts of US\$190 million (equivalent to approximately HK\$1,492,400,000) and US\$220 million (equivalent to approximately HK\$1,708,700,000) both due on 22 September 2019, which are secured and guaranteed by (i) 3,051,112,000 ordinary shares of the Company (“Shares”) owned by Rong De; (ii) the 100% equity interest of the Company’s subsidiaries, namely, Ai De, Capital Fame, Cheng Chang, Diamond Crown, East Orient, Ever Crown, Fully Wise, Gains Wide, Polyhero, Profait, Speedy Full, Talent Wide, Top Asset, Top Perfect and Vanco; (iii) the corporate guarantees executed by Rong De, South Trend, ZG Group, Ai De, Capital Fame, Cheng Chang, Diamond Crown, East Orient, Ever Crown, Fully Wise, Gains Wide, Polyhero, Profait, Speedy Full, Talent Wide, Top Asset, Top Perfect and Vanco; and (iv) the personal guarantees executed by the executive Directors, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (f) As at 30 June 2019, the Group had outstanding senior secured guaranteed notes issued in 2017 (“2017 Senior Notes”) in the principal amount of US\$50 million (equivalent to approximately HK\$384.9 million) due on 12 December 2019. The first tranche of the 2017 Senior Notes in the principal amount of US\$50 million is secured and guaranteed by (i) 100,000,000 Shares owned by Rong De; (ii) the 100% equity interest of the Company’s subsidiaries, namely, Victory Global Investments Limited (榮浩投資有限公司) (“Victory Global”), China Honest International Investments Limited (創豪國際投資有限公司) (“China Honest”) and Graceful Link Limited (愉興有限公司); (iii) the corporate guarantees executed by Rong De, South Trend, Victory Global and China Honest; and (iv) the personal guarantees executed by the executive Directors, Mr. Liao Tengjia, Mr. Chu Hing Tsung and Mr. Chu Muk Chi. As at 30 June 2019 and up to the date of this interim report, the second tranche of the 2017 Senior Notes had not been issued.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (g) As at 30 June 2019, the Group had outstanding secured other borrowings of approximately HK\$10,193.5 million, which were secured and guaranteed by (i) the Group's properties for sale under development and completed properties held for sale; (ii) the Group's assets under construction under property and equipment and land use rights classified under intangible assets; (iii) the Group's investment properties; (iv) the entire equity interest of the Company's subsidiaries, 廣州市潤啟房地產有限公司 (Guangzhou City Runqi Property Company Limited*), 廣東海聯大廈有限公司 (Guangdong Hailian Building Company Limited*), 廣州東港合眾房地產有限公司 (Guangzhou Dong Gang He Zhong Property Company Limited*) and 廣州珠光實業集團有限公司 (Guangzhou Zhuguang Industrial Group Company Limited*) (formerly known as 廣州御盈房地產有限公司 (Guangzhou Yu Ying Property Company Limited*)); (v) certain equity interest of the Company's subsidiary, 廣州御宏投資有限公司 (Guangzhou Yu Hong Investment Company Limited*); (vi) the corporate guarantees executed by the Company and Guangdong Zhuguang Group; (vii) the personal guarantees executed by the executive Directors, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi; (viii) 480,000,000 Shares owned by Rong De; and (ix) 681,240,000 shares in Silver Grant owned by the Company. The secured other borrowings comprised (1) a loan in the principal amount of RMB2,550 million repayable by instalments within 5 years with the last instalment due in December 2022; (2) a loan in the principal amount of RMB551 million due in November 2019; (3) a loan in the principal amount of RMB636 million due in April 2021; (4) a loan in the principal amount of RMB1,104.3 million repayable by instalments within 3 years with the last instalment due in July 2020; (5) a loan in the principal amount of RMB629.6 million repayable by instalments within 3 years with the last instalment due in January 2020; (6) a loan in the principal amount of RMB1,200 million due in July 2021; (7) a loan in the principal amount of RMB450 million repayable by instalments within 3 years with the last instalment due in January 2021; (8) a loan in the principal amount of RMB1,200 million due in July 2021; (9) loans in the principal amounts of HK\$490 million and HK\$500 million due in October 2019; and (10) a loan in the principal amount of RMB600 million due in January 2024.

* English name is translated for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL REVIEW *(continued)*

Borrowings, charges on group assets and gearing ratio *(continued)*

- (h) As at 30 June 2019, the Group had outstanding unsecured and guaranteed other borrowings of HK\$220 million, which were guaranteed by the personal guarantee executed by the executive Director, Mr. Chu Hing Tsung. The unsecured and guaranteed other borrowings comprised (1) a loan in the principal amount of HK\$20 million due in September 2019; and (2) a loan in the principal amount of HK\$200 million due in November 2019.

Issue of subscription shares

On 26 November 2018, the Company entered into a subscription agreement with Rong De (the controlling shareholder of the Company), pursuant to which the Company has conditionally agreed to allot and issue, and Rong De has conditionally agreed to subscribe for, 770,000,000 new Shares (“Subscription Shares”, each a “Subscription Share”) at the price (“Subscription Price”) of HK\$1.30 per Subscription Share (“Subscription”). The Subscription Price represents: (i) a discount of approximately 6.5% over the closing price of HK\$1.39 per Share as quoted on the Stock Exchange on 23 November 2018 (“Last Trading Day”); (ii) a discount of approximately 7.8% over the average closing price of HK\$1.41 per Share for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 9.1% over the average closing price of HK\$1.43 per Share for the last 10 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 60.5% over the audited net asset value per Share of the Company of approximately HK\$0.81 as at 31 December 2017. The closing price of the Shares on 26 November 2018, being the date on which the terms of the Subscription were fixed, was HK\$1.42 per Share. Completion of the Subscription took place on 2 January 2019, upon which 770,000,000 Shares of an aggregate nominal value of HK\$77,000,000 have been successfully subscribed by Rong De at the Subscription Price of HK\$1.30 per Subscription Share. The total net proceeds of approximately HK\$1,000.5 million received by the Company from the Subscription have been fully used by the Group for repaying its bank and other borrowings as intended.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES

2016 Senior Notes and 2016 Warrants

The conditional note purchase agreement (“2016 Note Purchase Agreement”) dated 3 August 2016 (as amended and supplemented by (i) a deed of adherence dated 23 September 2016 executed by Zhongrong International Wealth Management Limited (“Zhongrong International”); (ii) a deed of adherence dated 23 September 2016 executed by Wise United Holdings Limited (“Wise United”); (iii) a deed of adherence dated 30 December 2016 executed by CCB International Overseas Limited (“CCB Overseas”); (iv) a deed of adherence dated 30 October 2017 executed by Zhongrong International Growth Fund SPC — Zhongrong Auspicious Fund SP1 (“Zhongrong Fund”); (v) the First Master Amendment Deed; (vi) a deed of adherence dated 2 August 2019 executed by Rich Achieve Investments Limited (together with (i) to (iv) collectively as the “Deeds of Adherence”); and (vii) the T&C Amendment Deed) was entered into among (a) the Company as the issuer; (b) Rong De as the controlling shareholder (“Shareholder”) of the Company; (c) Blooming Rose Enterprises Corp. (“Blooming”) and Heroic Day Limited (“Heroic Day”), each in its capacity as a first tranche investor, Blooming, Heroic Day and such investors being persons who are not connected persons of the Company as identified by the Company which will purchase the 2016 Senior Notes (as defined below) at the closing of the second tranche of the issue and purchase of the 2016 Senior Notes (“2016 Second Tranche Investors”), and SPDB International Investment Management Limited (“SPDBI”) as a first tranche investor (Blooming, Heroic Day and SPDBI, collectively the “2016 First Tranche Investors”); and (d) Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi (collectively as the “Ultimate Shareholders”) as personal guarantors, pursuant to which the Company shall conditionally (aa) issue to the 2016 First Tranche Investors, the 2016 Second Tranche Investors and such investors being persons who are not connected persons of the Company as identified by the Company which will purchase the 2016 Senior Notes (as defined below) at the closing of the third tranche of the issue and purchase of the 2016 Senior Notes (“2016 Third Tranche Investors”),

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

in three tranches, the senior secured guaranteed notes ("2016 Senior Notes") of an aggregate principal amount of up to US\$500,000,000; and (bb) in consideration of the purchase of the 2016 Senior Notes by the 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors and the entering into of other transactions contemplated under the relevant transaction documents by such 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors, the Company shall issue warrants ("2016 Warrants") to such 2016 First Tranche Investors, the 2016 Second Tranche Investors and the 2016 Third Tranche Investors in three tranches pursuant to a warrant instrument dated 14 October 2016 executed by the Company, representing an aggregate amount of the exercise moneys of up to US\$75,000,000, pursuant to the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 11 October 2016, further details of which are set out in the announcements of the Company dated 3 August 2016, 23 September 2016, 11 October 2016 and 2 August 2019, and the circular of the Company dated 23 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

Pursuant to the 2016 Note Purchase Agreement (as amended and supplemented by the Deeds of Adherence, the First Master Amendment Deed and the T&C Amendment Deed), Rong De was required to create a charge (“2016 Share Charge”) over 2,542,000,000 Shares that it held in the Company in favour of The Bank of New York Mellon, Hong Kong Branch (“BNY HK”) and each of the Ultimate Shareholders has entered into a personal guarantee (collectively, the “2016 Guarantees”) in favour of BNY HK in relation to the 2016 Senior Notes. The 2016 Share Charge, which subsisted during the Period Under Review and as at the date of this interim report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2016 Guarantees subsisted during the Period Under Review and as at the date of this interim report.

The conditions of the 2016 Senior Notes, which subsisted during the Period Under Review and as at the date of this interim report, also contain certain specific performance obligations on Rong De (the controlling Shareholder) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

It is an event of default under the conditions of the 2016 Senior Notes, if, amongst others:

- (i) Rong De ceases to beneficially own at least 2,000,000,000 Shares;
- (ii) Rong De ceases to (a) control the Company, or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis;
- (iii) the Ultimate Shareholders cease to (a) control the Company, or (b) effectively and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;
- (iv) the Ultimate Shareholders cease to (a) control Rong De, or (b) legally and beneficially own in aggregate at least 70% of the total issued share capital of Rong De on a fully-diluted basis; and
- (v) any of the Ultimate Shareholders ceases to be a Director.

Upon the occurrence of an event of default, the 2016 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2016 Senior Notes.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

The 2016 Senior Notes constituted direct, unconditional, secured, guaranteed, unsubordinated and general obligations of the Company, which ranked at least pari passu with all other present and future direct, secured, unconditional and unsubordinated obligations, issued, created or assumed by the Company. The Company issued the first tranche of the 2016 Senior Notes (“First Tranche Notes”) to the 2016 First Tranche Investors in the aggregate principal of US\$190,000,000 (equivalent to approximately HK\$1,492,400,000) due on 3 August 2019 (which was subsequently extended to 22 September 2019) on 4 August 2016 and the second tranche of the 2016 Senior Notes (“Second Tranche Notes”) to the 2016 Second Tranche Investors in the aggregate principal amount of US\$220,000,000 (equivalent to approximately HK\$1,708,700,000) due on 22 September 2019 on 23 September 2016. The net proceeds, after deducting issuance costs, received by the Company from the issue of the First Tranche Notes and the Second Tranche Notes amounted to approximately US\$389,552,000 (equivalent to approximately HK\$3,021,818,000).

On 14 October 2016, the 2016 Warrants representing aggregate exercise moneys of US\$28,500,000 were issued to the 2016 First Tranche Investors and the 2016 Warrants representing aggregate exercise moneys of US\$33,000,000 were issued to the 2016 Second Tranche Investors.

The 2016 Warrants represent an aggregate amount of the exercise moneys of US\$61,500,000 at an adjusted strike price of HK\$1.79 for holders of the warrant shares (“2016 Warrant Shares”) to subscribe for Shares. If the subscription rights attached to the 2016 Warrant are exercised in full at the adjusted strike price of HK\$1.79, the 2016 Warrants will entitle the holders thereof (“2016 Warrant holders”) to subscribe for up to 267,988,826 Shares (of an aggregate nominal value of HK\$26,798,882.60). Details of the latest adjustment to the strike price of the 2016 Warrants are set out in the announcement of the Company dated 9 January 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

The Shares to be allotted and issued upon the exercise of the subscription rights attached to the 2016 Warrants, when allotted and issued, will rank *pari passu* with the existing ordinary Shares as at the date of allotment, and they will be allotted and issued pursuant to the specific mandate granted to the Directors by the Shareholders at the special general meeting of the Company held on 11 October 2016. The subscription rights attached to the 2016 Warrant will expire on the date falling 36 months from the issue date of such warrants. Further details of the 2016 Warrants are set out in the announcements of the Company dated 3 August 2016, 23 September 2016 and 11 October 2016 and the circular of the Company dated 23 September 2016.

The subscription money payable by a 2016 Warrantheader upon the exercise of the subscription rights, can be satisfied in the following manner at the 2016 Warrantheader's election:

- (i) by setting off the outstanding principal amount of any 2016 Senior Notes held by such 2016 Warrantheader in its capacity as the holder of any amount of 2016 Senior Notes against the exercise moneys equal to the aggregate subscription price; or
- (ii) by payment in cash to such bank account as designated by the Company as notified in writing to the 2016 Warrantheader three business days in advance; or
- (iii) by a combination of payment in cash and by way of set-off as set forth in the foregoing (i) and (ii); or
- (iv) by such other method of payment as the Company and such 2016 Warrantheader may reasonably agree.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

Assuming the 2016 Warrants representing exercise moneys of US\$61,500,000 are issued and all exercise moneys of the subscription rights attached to the 2016 Warrants will be settled by the 2016 Warrantholders to the Company in cash, the Company will receive gross proceeds of approximately HK\$480 million, and net proceeds of approximately HK\$479 million in this regard. The net proceeds, after deducting issuance costs, received by the Company will be used for funding potential acquisition of other property development projects in Shenzhen or Hebei Province. None of these 2016 Warrants have been exercised as at 30 June 2019.

The Board considered that the issue of the 2016 Senior Notes and the 2016 Warrants represented an opportunity to raise funds for the Company to repay all 2013 Indebtedness (as defined below) and 2014 Indebtedness (as defined below), and to raise additional funds for financing the costs of the Group's construction projects and to be used as the general working capital of the Company.

The Company intended to use the proceeds from the issue of the 2016 Senior Notes in the following manner:

- (i) to use the full amount of the proceeds received from the issue of the First Tranche Notes to partially repay the principal amount of debt (to the extent such principal amount has not been set-off or settled as contemplated under the 2016 Note Purchase Agreement (as amended and supplemented by the Deeds of Adherence, the First Master Amendment Deed and the T&C Amendment Deed)) payable to the 2013 Creditors (as defined below) in relation to the 2013 Indebtedness (as defined below);

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

- (ii) to use US\$200,000,000 of the proceeds received from the issue of the Second Tranche Notes to repay in full the principal amount of debt (to the extent such principal amount has not been set-off or settled as contemplated under the 2016 Note Purchase Agreement (as amended and supplemented by the Deeds of Adherence, the First Master Amendment Deed and the T&C Amendment Deed)) payable to 2014 Creditors (as defined below) in relation to the 2014 Indebtedness (as defined below);
- (iii) to use US\$5,000,000 of the proceeds received from the issue of the Second Tranche Notes to repay the indebtedness (other than the 2014 Note Indebtedness (as defined below)) owed by the Company to one of the investors under the three tranches of issue and purchase of the 2016 Senior Notes; and
- (iv) to use US\$15,000,000 of the proceeds received from the issue of the Second Tranche Notes as the general working capital of the Company, and for financing the costs of the Group's construction projects, provided that such proceeds shall not be used for (a) the subscription or acquisition of any shares or securities of any company listed on any stock exchange; or (b) the acquisition of any assets, properties or undertakings from Rong De and/or any of its affiliates.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

For the purpose of the above, the defined terms used above shall have the following meanings:

“2013 Creditors” means all creditors who are entitled to any payment under the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and the 2013 Warrants, including the registered holders of the outstanding 2013 Senior Notes as at 3 August 2016;

“2013 Indebtedness” means all outstanding indebtedness incurred by the 2013 Obligor under the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and 2013 Warrants (including the 2013 Note Indebtedness but excluding the 2013 Warrants Indebtedness) as at 4 August 2016;

“2013 Note Indebtedness” means all outstanding indebtedness incurred by the Company under the 2013 Senior Notes as at 4 August 2016;

“2013 Obligor” means each party to the transaction documents in connection with the issue by the Company of the 2013 Senior Notes and the 2013 Warrants, other than the investors in the 2013 Senior Notes, BNY HK and all other 2013 Creditors;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

“2013 Senior Notes”	means the 12.5% senior secured guaranteed notes in the principal amount of up to US\$200,000,000 due in 2016 issued by the Company, further details of which are set out in the announcements of the Company dated 22 July 2013, 5 August 2013, 26 September 2013, 15 October 2013 and 16 October 2013;
“2013 Warrants”	means the warrants with an aggregate amount of exercise moneys of up to US\$40,000,000 of the Company which entitle holders thereof to subscribe for Shares at the initial strike price of HK\$2.2691, further details of which are set out in the announcements of the Company dated 22 July 2013, 5 August 2013, 26 September 2013, 15 October 2013 and 16 October 2013;
“2013 Warrants Indebtedness”	means all amounts payable, including all redemption amounts payable by the Company, to the registered holders of the outstanding 2013 Warrants;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

- “2014 Creditors” means all creditors who are entitled to any payment under the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants, including the registered holders of the outstanding 2014 Senior Notes as at 3 August 2016;
- “2014 Indebtedness” means all outstanding indebtedness incurred by the 2014 Obligors under the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants (including the 2014 Note Indebtedness but excluding the 2014 Warrants Indebtedness) as at the date on which the consummation of the issue and purchase of the second tranche of the 2016 Senior Notes takes place;
- “2014 Note Indebtedness” means all outstanding indebtedness incurred by the Company under the 2014 Senior Notes as at the date on which the consummation of the issue and purchase of the second tranche of the 2016 Senior Notes takes place;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

“2014 Obligors”	means each party to the transaction documents in connection with the issue by the Company of the 2014 Senior Notes and the 2014 Warrants, other than the investors in the 2014 Senior Notes, BNY HK and all other 2014 Creditors;
“2014 Senior Notes”	means the 11.8% senior secured guaranteed notes in the principal amount of up to US\$350,000,000 due in 2017 issued by the Company, further details of which are set out in the announcements of the Company dated 22 June 2014, 26 June 2014, 17 July 2014, 21 July 2014, 28 December 2014, 8 January 2015 and 13 February 2015;
“2014 Warrants”	means the warrants with an aggregate amount of exercise moneys of up to US\$70,000,000 of the Company which entitle holders thereof to subscribe for Shares at the adjusted strike price of HK\$2.1464, further details of which are set out in the announcements of the Company dated 22 June 2014, 26 June 2014, 17 July 2014, 21 July 2014, 28 December 2014, 8 January 2015 and 13 February 2015;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

- “2014 Warrant Indebtedness” means all amounts payable, including all redemption amounts payable by the Company, to the registered holders of the outstanding 2014 Warrants;
- “First Master Amendment Deed” means the First Master Amendment Deed dated 1 November 2018 entered into among the Company, Blooming, Heroic Day, SPDBI, Wise United, Zhongrong International, Zhongrong Fund, CCB Overseas, BNY HK, Rong De, Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi, Top Perfect, Ever Crown, East Orient, Fully Wise, Polyhero, Top Asset, Vanco, Ai De, Profait, South Trend, Cheng Chang, ZG Group, Gains Wide, Talent Wide, Capital Fame, Speedy Full and Diamond Crown; and

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2016 Senior Notes and 2016 Warrants *(continued)*

“T&C Amendment Deed” means the Amendment Deed dated 2 August 2019 to amend and supplement the terms and conditions attached to the certificates of the 2016 Senior Notes, entered into among the Company, Blooming, Heroic Day, CCB Overseas, Rong De, Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi, Top Perfect, Ever Crown, East Orient, Fully Wise, Polyhero, Top Asset, Vanco, Ai De, Profait, South Trend, Cheng Chang, ZG Group, Gains Wide, Talent Wide, Capital Fame, Speedy Full and Diamond Crown.

2017 Senior Notes

The conditional note purchase agreement dated 30 November 2017 (“2017 Note Purchase Agreement”) was entered into among (a) the Company as the issuer; (b) Rong De as the controlling Shareholder; (c) China Huarong Macau (HK) Investment Holdings Limited (“China Huarong”) as first tranche investor; and (d) the Ultimate Shareholders as personal guarantors, pursuant to which the Company shall conditionally agree to issue to China Huarong (as the first tranche investor) and any other person(s) (including if agreed by China Huarong) being persons not connected persons of the Company who shall purchase the second tranche of the 2017 Senior Notes (as defined below) at the closing of the issue and purchase of the second tranche of the 2017 Senior Notes (as the second tranche investor), in two tranches, the senior secured guaranteed notes (“2017 Senior Notes”) of an aggregate principal amount of up to US\$80,000,000 (equivalent to approximately HK\$624,000,000), further details of which are set out in the announcement of the Company dated 30 November 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2017 Senior Notes *(continued)*

Pursuant to the 2017 Note Purchase Agreement, Rong De was required to execute a share charge in favour of China Huarong in respect of 100,000,000 Shares beneficially held by Rong De (“2017 Share Charge”), and each of the Ultimate Shareholders was required to enter into a personal guarantee in favour of China Huarong in relation to the 2017 Senior Notes (collectively, the “2017 Guarantees”). The 2017 Share Charge, which subsisted during the Period Under Review and as at the date of this interim report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The 2017 Guarantees subsisted during the Period Under Review and as at the date of this interim report.

The conditions of the 2017 Senior Notes, which subsisted during the Period Under Review and as at the date of this interim report, also contain certain specific performance obligations on Rong De (the controlling Shareholder) and the Ultimate Shareholders, which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

It is an event of default under the conditions of the 2017 Senior Notes, if, amongst others:

- (i) the Ultimate Shareholders cease to (a) control the Company; or (b) legally and beneficially own in aggregate at least 51% of the total issued share capital of the Company on a fully-diluted basis;
- (ii) the Ultimate Shareholders cease to (a) control Rong De; or (b) legally and beneficially own in aggregate at least 70% of the total issued share capital of Rong De on a fully-diluted basis;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2017 Senior Notes *(continued)*

- (iii) Rong De ceases to (a) control the Company; or (b) beneficially own at least 51% of the total issued share capital of the Company on a fully-diluted basis; and
- (iv) any of the Ultimate Shareholders:
 - (a) dies or is incapacitated or prevented by reason of mental or physical ill health, injury or accident from performing his duties as a Director;
 - (b) becomes of unsound mind, or is or becomes a patient for any purpose of any law relating to mental health;
 - (c) becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors generally; or
 - (d) ceases to be a Director.

Upon the occurrence of an event of default, the 2017 Senior Notes shall become immediately due and repayable in accordance with the conditions of the 2017 Senior Notes.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

2017 Senior Notes *(continued)*

The 2017 Senior Notes rank at least pari passu with all other present and future direct, secured, unconditional and unsubordinated obligations, issued, created or assumed by the Company. The Company issued the first tranche of the 2017 Senior Notes to China Huarong in the aggregate principal amount of US\$50,000,000 (equivalent to approximately HK\$384,900,000) due on 12 December 2019 on 13 December 2017. The net proceeds, after deducting issuance costs, received by the Company from the issue of the first tranche of the 2017 Senior Notes amounted to approximately US\$48,474,000 (equivalent to approximately HK\$378,319,000).

The Company intended to use the proceeds from the issue of the 2017 Senior Notes for funding real estate development projects, and paying operation and construction costs of the following projects: (i) Project Zhuguang Xincheng Yujing* (珠光新城御景項目); and (ii) Project Zhuguang Tianying Junyuan* (珠光天鷹君苑項目). The Board considered that the issue of the 2017 Senior Notes represented an opportunity for the Group to raise funds for funding the above construction projects of the Group.

* English name is translated for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

CCBIS Margin Loan

On 25 October 2018, Splendid Reach Limited (“Splendid”), a wholly-owned subsidiary of the Company, as borrower, and CCB International Securities Limited (建銀國際證券有限公司) (“CCBIS”), as lender, entered into a margin loan confirmation (“CCBIS Margin Loan Confirmation”) (as amended and supplemented by an amendment and restatement deed dated 24 April 2019 entered into between Splendid and CCBIS), under which CCBIS agreed to make available to Splendid a margin loan (“CCBIS Margin Loan”) over the term (“Term”) of not more than 12 months, in the principal amount of up to HK\$750,000,000 (for the first five business days of the Term), HK\$550,000,000 (from and including the sixth (6th) business day of the Term to 29 April 2019), HK\$510,000,000 (from and including 30 April 2019 to 30 May 2019), HK\$490,000,000 (from and including 31 May 2019 to 30 July 2019) and HK\$450,000,000 (from and including 31 July 2019 to the maturity date of the CCBIS Margin Loan). The interest of the CCBIS Margin Loan which is payable quarterly, shall accrue from and including the first drawdown date of the CCBIS Margin Loan (“First Drawdown Date”) to 31 March 2019 at a simple interest rate of 7.75% per annum on the relevant outstanding principal amount of the CCBIS Margin Loan, and shall accrue from and including 1 April 2019 up to and including the date of full principal repayment at a simple interest rate of 9% per annum on the relevant outstanding principal amount of the CCBIS Margin Loan. Further details of the CCBIS Margin Loan are set out in the announcement of the Company dated 25 October 2018. As at 30 June 2019, the amount of HK\$490,000,000 was outstanding under the CCBIS Margin Loan.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

CCBIS Margin Loan *(continued)*

Pursuant to the CCBIS Margin Loan Confirmation, (a) Rong De (the controlling Shareholder) was required to enter into a charge dated 25 October 2018 (“SL Rong De Charge”), in favour of CCBIS, over a margin securities trading account opened by Rong De with CCBIS (“SL Rong De Account”), into which Rong De shall deposit, among other assets, no less than 100,000,000 Shares held by Rong De before the First Drawdown Date (“SL Rong De Charged Shares First Batch”) and no less than 150,000,000 Shares held by Rong De on or before the 60th day of the Term (“SL Rong De Charged Shares Second Batch”, together with the SL Rong De Charged Shares First Batch, collectively as the “Aggregate SL Rong De Charged Shares”); and (b) the Company, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi were required to enter into a continuing guarantee dated 25 October 2018 (“CCBIS Continuing Guarantee”), in favour of CCBIS, to guarantee the settlement of all liabilities and obligations of Splendid under the CCBIS Margin Loan. The SL Rong De Charge, which subsisted during the Period Under Review and as at the date of this interim report, is disclosable pursuant to Rule 13.17 of the Listing Rules. As at 30 June 2019, out of the Shares deposited by Rong De into the SL Rong De Account, 380,000,000 Shares were in relation to the CCBIS Margin Loan. The CCBIS Continuing Guarantee subsisted during the Period Under Review and as at the date of this interim report.

The conditions of the CCBIS Margin Loan which subsisted during the Period Under Review and as at the date of this interim report, also contain certain specific performance obligations on Rong De (the controlling Shareholder), which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

CCBIS Margin Loan *(continued)*

Under the CCBIS Margin Loan Confirmation, Splendid shall procure Rong De to:

- (i) deposit the SL Rong De Charged Shares First Batch into the SL Rong De Account prior to the First Drawdown Date;
- (ii) deliver the SL Rong De Charge prior to the First Drawdown Date;
- (iii) deposit the SL Rong De Charged Shares Second Batch into the SL Rong De Account on or before the 60th day of the Term;
- (iv) maintain its deposit of the Aggregate SL Rong De Charged Shares in the SL Rong De Account, and shall procure Rong De not to charge, mortgage, pledge, or otherwise permit any encumbrance to be created over the Aggregate SL Rong De Charged Shares (other than the encumbrance created pursuant to the SL Rong De Charge or otherwise agreed by CCBIS);
- (v) not to apply for registration as a non-Hong Kong company pursuant to Part 16 of the Companies Ordinance without having obtained the prior written consent of CCBIS;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

CCBIS Margin Loan *(continued)*

- (vi) in the event that Rong De has obtained the prior written consent to apply for registration as a non-Hong Kong Company as set out in (v) above, Rong De shall procure that the prescribed particular of the SL Rong De Account together with the SL Rong De Charge be delivered to the Companies Registry of Hong Kong for the registration of the SL Rong De Charge and promptly deliver the certificate of such registration of the SL Rong De Charge to CCBIS;
- (vii) promptly after execution of the SL Rong De Charge, instruct its registered agent to enter particulars as required by the BVI Business Companies Act 2004 of the British Virgin Islands (“BVI Act”), as amended, of the security created pursuant to the SL Rong De Charge in the Rong De’s Register of Charges (“Rong De Register of Charges”);
- (viii) enter particulars as required by the BVI Act of the security created pursuant to the SL Rong De Charge in the Rong De Register of Charges and, immediately after entry of such particulars have been made, provide CCBIS with a certified true copy of the updated Rong De Register of Charges;
- (ix) effect registration, or assist CCBIS in effecting registration, of the SL Rong De Charge with the Registrar of Corporate Affairs pursuant to the BVI Act; and
- (x) immediately on receipt, deliver or procure to be delivered to CCBIS, the certificate of registration of charge issued by the Registrar of Corporate Affairs evidencing that the requirements of Part VIII of the BVI Act as to registration have been complied with and the filed stamped copy of the application containing the relevant particulars of charge.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

CCBIS Margin Loan *(continued)*

A breach of any of the above acts by Rong De shall constitute an event of default, which shall cause the CCBIS Margin Loan to become immediately due and repayable in accordance with the conditions of the CCBIS Margin Loan.

Cinda Term Loan Facility

On 23 November 2018, Splendid, as borrower, and China Cinda (HK) Asset Management Co., Limited (中國信達(香港)資產管理有限公司) (“Cinda”), as lender, entered into a facility agreement (“Cinda Term Loan Facility Agreement”), under which Cinda agreed to make available to Splendid a term loan facility in the aggregate amount of HK\$500,000,000, at the interest rate of 12% per annum (“Cinda Term Loan Facility”), with interest payable quarterly and final principal repayment due on 30 October 2019, further details of which are set out in the announcement of the Company dated 23 November 2018. As at 30 June 2019, the amount of HK\$500,000,000 was outstanding under the Cinda Term Loan Facility.

Pursuant to the Cinda Term Loan Facility Agreement, Rong De (the controlling Shareholder) was required to:

- (a) enter into a charge dated 23 November 2018 (“JL Rong De Charge”), in favour of Cinda, over (i) the SL Rong De Account; and (ii) a brokerage account, a Hong Kong dollar denominated cash account and a Hong Kong denominated safekeeping account which were opened or to be opened by Rong De with China Construction Bank (Asia) Corporations Limited (“CCBA”) (collectively referred to as the “JL Rong De Accounts”) on or before 15 December 2018;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

Cinda Term Loan Facility *(continued)*

- (b) deposit no less than 100,000,000 Shares held by Rong De before the drawdown of the Cinda Term Loan Facility into the SL Rong De Account;
- (c) deposit no less than an additional 150,000,000 Shares held by Rong De within 10 business days of the drawdown of the Cinda Term Loan Facility into the SL Rong De Account;
- (d) enter into an intercreditor agreement dated 23 November 2018, as third party chargor, with CCBIS as senior lender, Cinda as junior lender, and Splendid as borrower, under which the parties agreed the following:
 - (i) the charge created over the SL Rong De Account under the JL Rong De Charge and the charge created over the margin securities trading account opened by Splendid with CCBIS (“Splendid Account”) under a charge (“JL Splendid Charge”) over (aa) the SL Splendid Account; and (bb) a brokerage account, a Hong Kong dollar denominated cash account and a Hong Kong dollar denominated safekeeping account opened by Splendid with CCBA (collectively referred to as the “JL Splendid Accounts”), entered into on 23 November 2018 by Splendid in favour of Cinda, are subject to the existing security created pursuant to the SL Rong De Charge and the SL Splendid Charge respectively, meaning that in the event of enforcement of the SL Rong De Charge and the SL Splendid Charge, the proceeds of enforcement will first be applied towards payment of the CCBIS Margin Loan and all other amounts outstanding under the CCBIS Margin Loan Confirmation; and

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

Cinda Term Loan Facility *(continued)*

(d) *(continued)*

- (ii) immediately after the CCBIS Margin Loan and all other amounts under the CCBIS Margin Loan Confirmation have been fully repaid by Splendid (whether by enforcement of such relevant security or otherwise), CCBIS will transfer all remaining assets in the SL Rong De Account and the SL Splendid Account respectively, if any, to the relevant JL Rong De Accounts and the JL Splendid Accounts (as applicable).

In addition, the Company, Mr. Chu Hing Tsung, Mr. Liao Tengjia and Mr. Chu Muk Chi were required to enter into a continuing guarantee dated 23 November 2018 (“Cinda Continuing Guarantee”), in favour of Cinda, to guarantee the settlement of all liabilities and obligations of Splendid under the Cinda Term Loan Facility.

The JL Rong De Charge, which subsisted during the Period Under Review and as at the date of this interim report, is disclosable pursuant to Rule 13.17 of the Listing Rules. As at 30 June 2019, out of the Shares deposited by Rong De into the SL Rong De Account, 380,000,000 Shares were in relation to the Cinda Term Loan Facility. The Cinda Continuing Guarantee subsisted during the Period Under Review and as at the date of this interim report.

The conditions of the Cinda Term Loan Facility and the JL Rong De Charge which subsisted during the Period Under Review and as at the date of this interim report, also contain certain specific performance obligations on Rong De (the controlling Shareholder), which are required to be disclosed pursuant to Rule 13.18 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

Cinda Term Loan Facility *(continued)*

Under the Cinda Term Loan Facility Agreement and the JL Rong De Charge, Rong De shall (or Splendid shall procure Rong De to):

- (i) deposit no less than 100,000,000 Shares into the SL Rong De Account;
- (ii) deposit no less than an additional 150,000,000 Shares into the SL Rong De Account within 10 business days of the drawdown of the Cinda Term Loan Facility;
- (iii) maintain its deposit of Shares as required under the Cinda Term Loan Facility Agreement and the JL Rong De Charge in the SL Rong De Account;
- (iv) not apply for registration as a non-Hong Kong company pursuant to Part 16 of the Companies Ordinance without having obtained the prior written consent of Cinda;
- (v) promptly after execution of the JL Rong De Charge, instruct its registered agent to enter particulars as required by the BVI Act, as amended, of the security created pursuant to the JL Rong De Charge in the Rong De Register of Charges;
- (vi) enter particulars as required by the BVI Act of the security created pursuant to the JL Rong De Charge in the Rong De Register of Charges and, immediately after entry of such particulars have been made, provide Cinda with a certified true copy of the updated Rong De Register of Charges;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

DISCLOSURE PURSUANT TO RULES 13.17 AND 13.18 OF THE LISTING RULES *(continued)*

Cinda Term Loan Facility *(continued)*

- (vii) effect registration, or assist Cinda in effecting registration, of the JL Rong De Charge with the Registrar of Corporate Affairs of the BVI pursuant to the BVI Act; and
- (viii) immediately on receipt, deliver or procure to be delivered to Cinda, the certificate of registration of charge issued by the Registrar of Corporate Affairs evidencing that the requirements of Part VIII of the BVI Act as to registration have been complied with and the filed stamped copy of the application containing the relevant particulars of charge.

A breach of any of the above acts by Rong De or Splendid shall constitute an event of default, which shall cause the outstanding liabilities under the Cinda Term Loan Facility to become immediately due and repayable in accordance with the conditions of the Cinda Term Loan Facility.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

CONTINGENT LIABILITIES

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	3,512,943	3,313,578

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) the issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties.

Except for the financial guarantee contracts as disclosed above, the Group had no material contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2019, the Group had no future plans for material investments or capital assets except for those disclosed in the section headed “MATERIAL ACQUISITIONS AND DISPOSALS” in the section headed “OTHER INFORMATION” in this interim report.

FOREIGN EXCHANGE RATE

During the Period Under Review, the Group conducted its business almost exclusively in RMB except that certain transactions were conducted in HK\$ and US\$. The conversion of RMB into HK\$, US\$ or other foreign currencies has been based on the rates set by the People’s Bank of China. The value of RMB against HK\$, US\$ and other foreign currencies may fluctuate and is affected by factors such as changes in the PRC’s political and economic conditions. During the Period Under Review, the Group has not adopted any financial instruments for hedging purposes. However, the Group will constantly assess the foreign exchange risks it encounters so as to decide on the hedging policy required against the possible foreign exchange risks that may arise.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had capital expenditures contracted for but not provided for in its financial statements in respect of properties under development and acquisition of land use rights of approximately HK\$5,579,510,000 (31 December 2018: HK\$5,338,117,000) in aggregate, the details of which are set out in Note 22 to the Interim Financial Information. It is expected that these capital expenditures will be settled by cash through the Group’s internal resources and debt financing raised by the Group. Other than the capital commitments as disclosed, the management of the Group does not expect there to be any plans for material capital expenditures in the coming six months.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

CAPITAL STRUCTURE

As at 30 June 2019, the number of issued ordinary shares of the Company was 7,194,417,247 shares (31 December 2018: 6,424,417,247 shares) in aggregate and the shareholders' equity of the Company was approximately HK\$7,112,735,000 (31 December 2018: HK\$6,722,504,000). The increase in the shareholders' equity of the Company during the Period Under Review was mainly attributable to the profit attributable to the equity holders of the Company of approximately HK\$358,124,000 for the Period Under Review, as compared to the loss attributable to the equity holders of the Company of approximately HK\$53,003,000 for the corresponding period in 2018.

As at 30 June 2019, the capital structure of the Group mainly consisted of shareholders' equity, bank loans, senior notes and other borrowings. There is no material seasonality of borrowing requirements for the Group.

As at 30 June 2019, the Company had warrants representing an aggregate amount of exercise moneys of US\$61,500,000 outstanding, all being the 2016 Warrants.

During the Period Under Review and up to the date of this interim report, no subscription notice has been received by the Company in respect of the exercise of the subscription rights attached to the 2016 Warrants.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EMPLOYEES AND REMUNERATION POLICIES

The Group had in aggregate 344 employees in Hong Kong and the PRC as at 30 June 2019 (31 December 2018: 332). During the Period Under Review, the level of the Group's overall staff cost was approximately HK\$51,654,000 (six months ended 30 June 2018: HK\$30,346,000). The employees of the Group are remunerated according to their respective job nature, market conditions, individual performance and qualifications. Other staff benefits include annual bonus and retirement benefits. The Directors' remuneration is determined based on their qualifications, experience, duties and responsibilities, the Company's remuneration policy and the prevailing market conditions.

The Group encourages sustainable training of its employees through coaching and further studies. In-house training has been provided to eligible employees during the Period Under Review, including training on updates of accounting standards and training on market updates.

During the Period Under Review, the Group has not experienced any significant problem with its employees or disruption to its operations due to labour discipline nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group has maintained a good relationship with its employees. Most members of the senior management have been working for the Group for many years.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
REVENUE	5	2,202,698	1,473,600
Cost of sales		(1,130,271)	(637,742)
Gross profit		1,072,427	835,858
Fair value gain on investment properties, net	12	14,515	66,277
Other income and gains	5	216,555	76,938
Selling and marketing expenses		(32,880)	(19,767)
Administrative expenses		(99,126)	(98,470)
Other expenses		(135,377)	(29,530)
Change in fair value of financial assets at fair value through profit or loss		389,483	—
Share of profit of an associate		13,692	—
PROFIT FROM OPERATIONS		1,439,289	831,306
Finance costs	6	(752,904)	(611,069)
PROFIT BEFORE TAX	7	686,385	220,237
Income tax expense	8	(338,583)	(215,873)
PROFIT FOR THE PERIOD		347,802	4,364
Attributable to:			
Equity holders of the parent		358,124	(53,003)
Non-controlling interests		(10,322)	57,367
		347,802	4,364
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (HK cents per share)	10	4.65	(0.83)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	347,802	4,364
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	39,799	(29,047)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive loss of an associate	(7,943)	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	31,856	(29,047)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	379,658	(24,683)
Attributable to:		
Equity holders of the parent	390,231	(76,008)
Non-controlling interests	(10,573)	51,325
	379,658	(24,683)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property and equipment	11	286,313	227,288
Investment properties	12	4,181,821	4,010,984
Intangible assets		767	54,425
Goodwill		211,381	212,218
Investments in a joint venture		2,739	2,739
Investments in an associate		2,085,959	2,080,210
Financial assets at fair value through profit or loss	15	3,250,134	3,260,545
Deferred tax assets		72,812	66,088
Total non-current assets		10,091,926	9,914,497
CURRENT ASSETS			
Properties under development		3,586,960	4,165,756
Completed properties held for sale		3,404,811	3,405,772
Trade and other receivables	13	1,899,749	1,495,739
Prepayments, deposits and other assets	14	10,335,675	7,571,489
Prepaid income tax		186,220	202,567
Financial assets at fair value through profit or loss	15	2,136,082	2,059,530
Restricted cash		524,893	822,606
Term deposits with initial terms of over three months		3,300,756	5,625,869
Cash and cash equivalents		802,784	544,610
Total current assets		26,177,930	25,893,938

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
CURRENT LIABILITIES			
Contract liabilities		2,593,043	2,845,669
Trade and other payables	16	3,845,697	3,682,758
Interest-bearing bank and other borrowings	18	9,620,239	9,485,319
Amount due to the ultimate holding company		24,030	24,030
Current income tax payables		2,065,009	1,919,124
Derivative financial instruments	17	1	17,964
Total current liabilities		18,148,019	17,974,864
NET CURRENT ASSETS			
		8,029,911	7,919,074
TOTAL ASSETS LESS CURRENT LIABILITIES			
		18,121,837	17,833,571
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	18	9,486,638	9,659,836
Deferred tax liabilities		1,407,234	1,325,428
Total non-current liabilities		10,893,872	10,985,264
Net assets		7,227,965	6,848,307

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	19	719,442	642,441
Perpetual capital securities	20	832,416	800,000
Reserves		5,560,877	4,279,063
Subscription monies received	19	—	1,001,000
		7,112,735	6,722,504
Non-controlling interests		115,230	125,803
Total equity		7,227,965	6,848,307

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

(Unaudited)	Attributable to owners of the parent							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Exchange fluctuation reserve	Contributed surplus	Statutory reserves	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018 (audited)	642,441	4,640,287	(101,922)	(269,574)	239,404	6,668	(299,173)	4,858,131	324,442	5,182,573
(Loss)/profit for the period	–	–	–	–	–	–	(53,003)	(53,003)	57,367	4,364
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	–	–	–	(23,005)	–	–	–	(23,005)	(6,042)	(29,047)
Total comprehensive (loss)/profit for the period	–	–	–	(23,005)	–	–	(53,003)	(76,008)	51,325	(24,683)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(21,417)	(21,417)
At 30 June 2018 (unaudited)	642,441	4,640,287	(101,922)	(292,579)	239,404	6,668	(352,176)	4,782,123	354,350	5,136,473

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 30 June 2019

(Unaudited)	Attributable to owners of the parent												Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Exchange fluctuation reserve	Contributed surplus	Statutory reserves	Capital reserve	Asset revaluation reserve	Retained profits	Perpetual capital securities	Subscription monies received	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (audited)	642,441	4,640,287*	(101,922)*	(617,528)*	239,404*	6,668*	(25,738)*	5,649*	132,243*	800,000	1,001,000	6,722,504	125,803	6,848,307
Profit for the period	-	-	-	-	-	-	-	-	358,124	-	-	358,124	(10,322)	347,802
Other comprehensive income/(loss) for the period:														
Exchange differences on translation of foreign operations	-	-	-	40,050	-	-	-	-	-	-	-	40,050	(251)	39,799
Share of other comprehensive loss of an associate	-	-	-	(8,692)	-	-	-	749	-	-	-	(7,943)	-	(7,943)
Total comprehensive income/(loss) for the period	-	-	-	31,358	-	-	-	-	358,124	-	-	390,231	(10,573)	379,658
Issuance of shares	77,001	923,999	-	-	-	-	-	-	-	-	(1,001,000)	-	-	-
Distribution to holders of perpetual capital securities	-	-	-	-	-	-	-	-	(32,416)	32,416	-	-	-	-
At 30 June 2019 (unaudited)	719,442	5,564,286*	(101,922)*	(586,170)*	239,404*	6,668*	(25,738)*	6,398*	457,951*	832,416	-	7,112,735	115,230	7,227,965

* These reserve accounts comprise the consolidated reserves of HK\$5,560,877,000 (31 December 2018: HK\$4,279,063,000) in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	686,385	220,237
Total non-cash adjustments	(341,891)	481,035
Total working capital adjustments	(2,821,067)	(891,877)
Cash used in operations	(2,476,573)	(190,605)
Interest paid	(747,537)	(653,674)
Corporate income tax paid	(101,277)	(53,452)
Net cash flows used in operating activities	(3,325,387)	(897,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits paid for acquisition of equity interests in property development projects	(102,568)	—
Refund of deposits for acquisition of equity interests in property development projects	285,996	2,332,763
Repayment of cash advances to related parties	110,045	1,163,687
Interest received	272,382	67,470
Purchases of items of property and equipment	(10,020)	(97)
Additions of investment properties	(65,779)	—
Proceeds from financial assets at fair value through profit or loss	295,215	11,873
Increase in financial assets at fair value through profit or loss	—	(58,712)
Decrease/(increase) in term deposits with initial terms of over three months	2,325,113	(1,776,339)
Net cash flows from investing activities	3,110,384	1,740,645

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	738,920	2,206,600
Repayment of bank and other borrowings	(783,506)	(1,583,472)
Repayment of finance lease payables	—	(335)
Cash advances from related parties	489,614	802,841
Repayment of cash advances from related parties	—	(105,294)
Dividend paid to non-controlling shareholders	—	(21,417)
Net cash flows from financing activities	445,028	1,298,923
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	544,610	778,542
Effect of foreign exchange rate changes	28,149	(11,260)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	802,784	2,909,119

NOTES TO INTERIM FINANCIAL INFORMATION

30 June 2019

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 9 December 1996.

During the period, the Company’s principal activity was investment holding and the Company and its subsidiaries (collectively the “Group”) were principally engaged in property development, property investment, property management and other property development related services in the mainland of the People’s Republic of China (the “PRC” or the “Mainland China”).

In the opinion of the Company’s directors (the “Directors”), the ultimate holding company of the Company is Rong De Investment Limited (“Rong De”), which is incorporated in the British Virgin Islands (“BVI”).

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

2. BASIS OF PRESENTATION

As at 30 June 2019, the Group had cash and cash equivalents and terms deposits (with initial terms of over three months) with an aggregate carrying amount of approximately HK\$4,104 million, the majority of which are kept by the Group's subsidiaries in the Mainland China. As at the same date, the Group had outstanding interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK\$9,620 million which are due to be repaid within one year from the end of the reporting period, comprising offshore borrowings of approximately HK\$5,110 million and onshore borrowings in the Mainland China of approximately HK\$4,510 million. In addition, as detailed in note 18(e) to the condensed consolidated interim financial information for the six months ended 30 June 2019 (the "Interim financial information"), the Group failed to comply with a financial covenant in respect of the senior notes with an aggregate carrying amount of approximately HK\$3,586 million as at 30 June 2019, which may become repayable on demand.

On 2 August 2019, the Company, Rong De, Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi and the investors holding at least 85% of the 2016 Senior Notes entered into an amendment deed to amend and supplement the terms and conditions attached to the certificates of the 2016 Senior Notes, to extend the maturity date of the first tranche of the 2016 Senior Notes with a principal amount of approximately HK\$1,492 million ("2016 First Tranche Notes") from 3 August 2019 to 22 September 2019, so that the entire 2016 Senior Notes issued (consisting of two tranches in aggregate) will mature on 22 September 2019.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

2. BASIS OF PRESENTATION *(Continued)*

In preparing the interim financial information, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that as at 30 June 2019, the Group had interest-bearing bank and other borrowings with an aggregate carrying amount of approximately HK\$9,620 million which are due to be repaid within one year from the end of the reporting period, including the aforesaid senior notes with an aggregate carrying amount of approximately HK\$3,586 million which may become repayable on demand. Furthermore, the Group had contracted capital and other commitments of approximately HK\$5,580 million as set out in note 22 to the interim financial information.

Nevertheless, the interim financial information was prepared based on the assumption that the Group can be operated as a going concern and the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 30 June 2019, after taking into consideration the following:

- (i) the available credit facilities of the Group;
- (ii) the extension of maturity date of the 2016 First Tranche Notes of the Group;
- (iii) the refinancing plan for the senior notes and bank and other loans of the Group; and
- (iv) the estimated cash flows of the Group for the next twelve months from the end of the reporting period, in particular, with (a) the consideration of the upcoming plan for sales of its completed properties held for sale and pre-sale of its properties under development; and (b) the Group's plan to obtain alternative funding including offshore loans under cross-border guarantee arrangements.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018. The accounting policies adopted in the preparation of the interim financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the following new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”, which include all HKFRSs, HKASs and Interpretations issued by the HKICPA), that have been adopted by the Group for the first time in 2019 for the current period’s interim financial information:

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim financial information. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 replaces HKAS 17 *Leases*, 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for an elective exemption for leases of short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

As a lessee – Leases previously classified as operating leases

(continued)

Impacts on transition *(continued)*

The right-of-use assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to include the right-of-use assets in property and equipment as appropriate. This includes the lease assets recognised previously of HK\$52,211,000 that were reclassified from intangible assets.

For the leasehold land and building (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedient when applying HKFRS 16 at 1 January 2019:

- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months from the date of initial application

Accordingly, the Group recognised property and equipment of HK\$52,211,000 and derecognised intangible assets of HK\$52,211,000 as at 1 January 2019.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual consolidated financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "properties under development" and "completed properties held for sale". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

3. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(Continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets (land use rights), which was included in property and equipment, and the movement during the period is as follows:

	Land use rights HK\$'000
As at 1 January 2019	52,211
Depreciation charge	(875)
Exchange realignment	(143)
As at 30 June 2019	51,193

The Group recognised rental expenses from short-term leases of approximately HK\$3,472,000 for the six months ended 30 June 2019.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the property development segment engages in the development and sale of properties;
- (b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and
- (c) the project management services segment engages in the provision of project management services to property development projects and urban redevelopment projects.

The Group's revenue from external customers from each operating segment is also set out in note 5 to the interim financial information.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that the change in fair value of derivative financial instruments, share of profit of an associate, finance costs and income tax expenses are excluded from such measurement.

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Segment assets exclude investments in a joint venture and an associate, deferred tax assets and unlisted investments classified as financial assets at fair value through profit or loss as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, current income tax payables, deferred tax liabilities and derivative financial instruments as these liabilities are managed on a group basis.

For the six months ended 30 June 2019

(Unaudited)	Property development HK\$'000	Property investment HK\$'000	Project management services HK\$'000	Total HK\$'000
Segment revenue: (note 5)				
Sales to external customers	1,606,812	86,864	509,022	2,202,698
Segment results	428,055	81,114	898,505	1,407,674
<i>Reconciliation:</i>				
Fair value gain on derivative financial instruments, net				17,923
Share of profit of an associate				13,692
Finance costs				(752,904)
Profit before tax				686,385
Income tax expense				(338,583)
Profit for the period				347,802

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2018

(Unaudited)	Property development HK\$'000	Property investment HK\$'000	Project management services HK\$'000	Total HK\$'000
Segment revenue: (note 5)				
Sales to external customers	1,139,246	81,782	252,572	1,473,600
Segment results	459,326	130,079	252,572	841,977
<i>Reconciliation:</i>				
Fair value loss on derivative financial instruments, net				(10,671)
Finance costs				(611,069)
Profit before tax				220,237
Income tax expense				(215,873)
Profit for the period				4,364

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

4. OPERATING SEGMENT INFORMATION (Continued)

30 June 2019

(Unaudited)

	Property development HK\$'000	Property investment HK\$'000	Project management services HK\$'000	Total HK\$'000
Segment assets	17,614,317	4,236,733	12,187,530	34,038,580
<i>Reconciliation:</i>				
Corporate and other unallocated assets				2,231,276
Total assets				36,269,856
Segment liabilities	6,364,196	98,574	—	6,462,770
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				22,579,121
Total liabilities				29,041,891

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

31 December 2018

(Audited)

	Property development HK\$'000	Property investment HK\$'000	Project management services HK\$'000	Total HK\$'000
Segment assets	24,286,387	4,043,754	5,259,216	33,589,357
<i>Reconciliation:</i>				
Corporate and other unallocated assets				2,219,078
Total assets				35,808,435
Segment liabilities	6,458,379	94,078	—	6,552,457
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				22,407,671
Total liabilities				28,960,128

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the segment assets of the Group are located in Mainland China. Accordingly, in the opinion of the Directors, the presentation of geographical information would provide no additional useful information to the users of this interim financial information.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about a major customer

For the six months ended 30 June 2019, revenue of approximately HK\$509,022,000 (six months ended 30 June 2018: HK\$140,695,000) was derived from a single related party customer which are attributable to the project management services segment (note 5).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of properties	1,606,812	1,139,246
Project management services	—	252,572
<i>Revenue from other sources</i>		
Rental income from investment properties	86,864	81,782
Finance component of income from urban redevelopment projects	509,022	—
	2,202,698	1,473,600

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2019

	Property development (Unaudited) HK\$'000
Type of goods or services	
Sale of properties	1,606,812
Timing of revenue recognition	
Goods transferred at a point in time	1,523,903
Services transferred over time	82,909
Total revenue from contracts with customers	1,606,812

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)

30 June 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (continued)

Disaggregated revenue information (continued)

For the six months ended 30 June 2018

Segments	Property	Project	Total
	development	management	
	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000
Type of goods or services			
Sale of properties	1,139,246	—	1,139,246
Project management services	—	252,572	252,572
<hr/>			
Total revenue from contracts			
with customers	1,139,246	252,572	1,391,818
<hr/>			
Timing of revenue recognition			
Goods transferred			
at a point in time	1,139,246	—	1,139,246
Services transferred over time	—	252,572	252,572
<hr/>			
Total revenue from contracts			
with customers	1,139,246	252,572	1,391,818
<hr/>			

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

An analysis of the Group's other income and gains is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest income	198,632	76,938
Fair value gain on derivative financial instruments	17,923	—
	216,555	76,938

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest on bank and other borrowings and senior notes	1,056,408	661,550
Less: interest capitalised	(303,504)	(50,481)
	752,904	611,069

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Cost of properties sold	1,130,271	635,702
Depreciation	2,131	1,371
Amortisation	735	2,249
Fair value (gain)/loss on derivative financial instruments, net	(17,923)	10,671
Foreign exchange differences, net	78,468	18,859
Employee benefit expense (including directors' remuneration)	51,654	30,346
Impairment of financial assets	45,666	—
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	671	811

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2019 and 2018. Taxes on profits assessable in the Mainland China have been calculated at the rates of tax prevailing in the cities in which the majority of the Group's subsidiaries operate.

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current:		
PRC corporate income tax	140,558	196,397
PRC land appreciation tax	116,235	17,316
	256,793	213,713
Deferred	81,790	2,160
Total tax charge for the period	338,583	215,873

9. DIVIDENDS

No interim dividend in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: Nil) was proposed by the board of directors of the Company.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, adjusted for the distribution related to perpetual capital securities, and the weighted average number of ordinary shares of 7,190,163,103 (six months ended 30 June 2018: 6,424,417,247) in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the impact of the warrants had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

The calculations of the basic and diluted earnings/(loss) per share are based on:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit/(loss) attributable to equity holders of the parent (HK\$'000)	358,124	(53,003)
Distribution related to perpetual capital securities (HK\$'000)	(24,000)	—
Profit/(loss) used in the basic and diluted earnings per share calculations (HK\$'000)	334,124	(53,003)
Weighted average number of ordinary shares in issue during the period (thousand shares)	7,190,163	6,424,417

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

11. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property and equipment of HK\$10,020,000 (six months ended 30 June 2018: HK\$6,295,000). During the six months ended 30 June 2018, the Group disposed of property and equipment of HK\$8,000.

12. INVESTMENT PROPERTIES

(Unaudited)	Completed	Under construction	Total
	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January 2019	2,988,388	1,022,596	4,010,984
Additions	—	65,779	65,779
Transfer from completed properties held for sale	106,592	—	106,592
Net gains from fair value adjustments	9,724	4,791	14,515
Exchange realignment	(11,937)	(4,112)	(16,049)
Carrying amount at 30 June 2019	3,092,767	1,089,054	4,181,821
Carrying amount at 1 January 2018	2,412,183	—	2,412,183
Transfer from completed properties held for sale	110,756	—	110,756
Net gains from fair value adjustments	66,277	—	66,277
Exchange realignment	(22,816)	—	(22,816)
Carrying amount at 30 June 2018	2,566,400	—	2,566,400

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

12. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties were revalued on 30 June 2019 and 2018 based on valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers.

The valuations of completed investment properties were based on either (i) the term and reversionary approach by capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary rental income potential of the properties, which is positively correlated to the market rental growth rate, and negatively correlated to term yields and reversion yields; or (ii) the direct comparison method by reference to comparable market transactions, which is positively correlated to the market unit sale rate.

The valuations of investment properties under construction were based on the residual approach, which is positively correlated to the estimated annual rental value per square meter and the development profit, and negatively correlated to the capitalisation rate.

At 30 June 2019 and 2018, the fair value measurement of all the Group's investment properties used significant unobservable inputs (Level 3) as defined in HKFRS 13.

In the opinion of the Directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use.

During the period, there were no transfers of fair value measurements between Level 1 (quoted prices in active markets) and Level 2 (significant observable inputs) and no transfer into or out of Level 3 (six months ended 30 June 2018: Nil).

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

13. TRADE AND OTHER RECEIVABLES

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Trade receivables		
Related parties	9,146	9,182
Third parties	95,411	38,263
	104,557	47,445
Other receivables		
Related parties	50,736	160,781
Third parties	1,778,583	1,307,963
	1,829,319	1,468,744
Impairment allowance	(34,127)	(20,450)
	1,899,749	1,495,739

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

13. TRADE AND OTHER RECEIVABLES *(Continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the revenue recognition date or invoice date and net of loss allowance, is as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Current to 180 days	89,149	27,118
181 to 365 days	15,408	14,311
Over 365 days	—	6,016
	104,557	47,445

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

14. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Contract assets with related parties for urban redevelopment projects	6,941,141	—
Prepayments or deposits to related parties for acquisition of equity interests in property development projects (note)	795,760	4,724,941
Prepayments or deposits to third parties: For acquisition of equity interests in property development projects (note)	2,301,952	2,596,365
Prepaid construction costs and others	280,106	184,515
Prepaid business taxes and other levies	78,990	88,107
Cost of obtaining contracts	22,965	31,908
Others	17,052	17,119
	10,437,966	7,642,955
Impairment allowance	(102,291)	(71,466)
	10,335,675	7,571,489

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

14. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

(Continued)

Note:

As at 30 June 2019, the Group had deposits with an aggregate amount of HK\$3,097,712,000 (31 December 2018: HK\$7,321,306,000) to invest in private project companies in the PRC. The deposits were to acquire equity interests in certain PRC entities, which own land use rights or property development projects in the PRC.

As at 30 June 2019, deposits of HK\$795,760,000 (31 December 2018: HK\$4,724,941,000) were paid to Guangdong Zhuguang Group Company Limited and its subsidiaries (related parties of the Group) as authorised agents of the Group for the proposed acquisitions of equity interests of certain entities which own certain land use rights or property development projects in the PRC.

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Other receivables, at fair value	(a)	5,316,450	5,250,034
Other unlisted investments, at fair value	(b)	69,766	70,041
		5,386,216	5,320,075
Portion classified as current assets		(2,136,082)	(2,059,530)
Non-current portion		3,250,134	3,260,545

Notes:

- (a) As at 30 June 2019, the other receivables of HK\$5,316,450,000 (31 December 2018: HK\$5,250,034,000) at fair value represented funds provided to certain related parties for property project development in the PRC which are classified as financial assets at fair value through profit or loss. Pursuant to the relevant project management service agreements, the Group agreed to provide funds and management service to certain property development projects. In return, the Group is entitled to a fixed income being a certain percentage of the total funds provided and a variable bonus which is determined with reference to the operating performance of the projects. The fair value of the other receivables is determined based on the discounted cash flow projections based on the expected future cash flows from the property development projects estimated by management. The discount rate applied to the cash flow projections ranged from 12.3% to 12.6% (31 December 2018: ranged from 13.5% to 13.7%).

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

- (b) At 30 June 2019, the Group subscribed for certain unlisted PRC investment funds for an aggregate amount of HK\$69,766,000 (31 December 2018: HK\$70,041,000). The investment funds are managed with expected return equal to one-year prevailing saving interest rate quoted by the People's Bank of China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

16. TRADE AND OTHER PAYABLES

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Trade payables	(a)	2,138,746	2,421,382
Amounts due to related parties	(b)	869,712	390,686
Other payables and accruals	(c)	419,451	541,340
Other taxes payables	(c)	417,788	329,350
		3,845,697	3,682,758

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

16. TRADE AND OTHER PAYABLES *(Continued)*

Notes:

- (a) An ageing analysis of the trade payables as at the end of the reporting period, based on the due date, is as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within 1 year	2,138,746	2,387,649
Over 1 year	—	33,733
	2,138,746	2,421,382

The trade payables are non-interest-bearing and unsecured.

- (b) The amounts due to related companies are unsecured, interest-free and repayable on demand.
- (c) Other payables and accruals and other taxes payables are non-interest-bearing and are expected to be settled within one year.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
2016 Warrants	1	17,964

Details of the 2016 Warrants are set out in note 18(b) to the interim financial information. The warrants were measured at their fair values on 30 June 2019 and 31 December 2018. The fair values (categorised as level 3 measurement under HKFRS 13) of the warrants were based on a valuation, using trinomial tree method, carried out by an independent qualified professional valuer and approved by the Directors. The significant unobservable inputs used in the fair value measurement are expected volatility and effective interest rate.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

18. BANK AND OTHER BORROWINGS

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	3,464,814	3,182,717
In the second year	1,642,582	1,315,144
In the third to fifth years, inclusive	—	1,163,517
	5,107,396	5,661,378
Other borrowings repayable:		
Within one year or on demand	2,569,420	2,751,409
In the second year	7,844,056	3,010,008
In the third to fifth years, inclusive	—	4,171,167
	10,413,476	9,932,584
Senior notes:		
Within one year or on demand		
— 2016 Senior Notes	3,201,100	3,170,969
— 2017 Senior Notes	384,905	380,224
	3,586,005	3,551,193
	19,106,877	19,145,155
Total bank and other borrowings	19,106,877	19,145,155
Portion classified as current liabilities	(9,620,239)	(9,485,319)
Non-current portion	9,486,638	9,659,836

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

18. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

- (a) Certain of the Group's bank and other borrowings are secured or guaranteed by:
 - (i) pledges over the Group's property and equipment with an aggregate carrying amount at the end of the reporting period of approximately HK\$279,247,000 (31 December 2018: HK\$219,697,000);
 - (ii) pledges over the Group's investment properties with an aggregate carrying amount at the end of the reporting period of approximately HK\$3,219,188,000 (31 December 2018: HK\$3,167,983,000);
 - (iii) pledges over the Group's intangible assets with an aggregate carrying amount at 31 December 2018 of approximately HK\$52,211,000;
 - (iv) pledges over the Group's properties under development with an aggregate carrying amount at the end of the reporting period of approximately HK\$1,570,242,000 (31 December 2018: HK\$1,319,733,000);
 - (v) pledges over the Group's completed properties held for sale with an aggregate carrying amount at the end of the reporting period of approximately HK\$658,633,000 (31 December 2018: HK\$640,613,000);
 - (vi) pledges over the Group's term deposits with initial terms of over three months with an aggregate carrying amount at the end of the reporting period of approximately HK\$289,890,000 (31 December 2018: HK\$615,954,000);

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

18. BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

- (vii) pledges over the Group's investment in an associate with an aggregate carrying amount at the end of the reporting period of approximately HK\$2,085,959,000 (31 December 2018: HK\$2,080,210,000);
- (viii) pledges over the Company's equity interest executed by the Company's ultimate holding company for borrowings of the Group amounting to HK\$978,742,000 (31 December 2018: HK\$471,977,000) at the end of the reporting period;
- (ix) pledges over the equity interests of the Group's certain subsidiaries for borrowings of the Group amounting to HK\$7,140,606,000 (31 December 2018: HK\$6,809,775,000) at the end of the reporting period;
- (x) corporate guarantees executed or security provided by the Company's ultimate holding company for the senior notes of the Group amounting to HK\$3,586,005,000 (31 December 2018: HK\$3,551,193,000) at the end of the reporting period;
- (xi) corporate guarantees executed by the Company for borrowings of the Group amounting to HK\$11,333,547,000 (31 December 2018: HK\$11,626,845,000) at the end of the reporting period; and
- (xii) personal guarantee executed by certain directors for borrowings of the Group amounting to HK\$13,730,129,000 (31 December 2018: HK\$11,338,808,000) at the end of the reporting period.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

18. BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

- (b) On 4 August 2016 and 23 September 2016 respectively, the Company issued 3-year secured and guaranteed senior notes (“2016 Senior Notes”), with an aggregate principal amount of US\$190,000,000 and US\$220,000,000 respectively. The net proceeds, after deducting the issuance costs, amounted to US\$389,552,000 (equivalent to approximately HK\$3,021,818,000). The 2016 Senior Notes are denominated in US\$, due on 22 September 2019, and with an interest rate at 11% per annum.

On 2 August 2019, the Company, Rong De, Mr. Liao Tengjia, Mr. Chu Hing Tsung, Mr. Chu Muk Chi and the investors holding at least 85% of the 2016 Senior Notes entered into an amendment deed to amend and supplement the terms and conditions attached to the certificates of the 2016 Senior Notes, to extend the maturity date of the 2016 First Tranche Notes from 3 August 2019 to 22 September 2019, so that the entire 2016 Senior Notes issued (consisting of two tranches in aggregate) will mature on 22 September 2019.

Concurrent with the issuance of the 2016 Senior Notes, nil-paid warrants (the “2016 Warrants”) representing a total amount of exercise moneys of US\$61,500,000 (the exchange rate to be used for the purchase of HK\$ with US\$ shall be HK\$7.8 per US\$1.0) were granted to these investors to subscribe for 239,909,977 ordinary shares of the Company at an initial exercise price of HK\$1.9995 per ordinary share of the Company, which are subject to certain anti-dilutive adjustments. The 2016 Warrants are exercisable at any time up to 36 months from the issue date of such warrant. Pursuant to the rights issue in 2016, the exercise price of the 2016 Warrants was downward adjusted to HK\$1.8049 per ordinary share of the Company. As a result of the issue of new shares in January 2019, the exercise price of the 2016 Warrants was further adjusted to HK\$1.79 per ordinary share of the Company.

- (c) On 13 December 2017, the Company issued 2-year secured and guaranteed senior notes (“2017 Senior Notes”), with an aggregate principal amount of US\$50,000,000. The net proceeds, after deducting the issuance costs, amounted to US\$48,474,000 (equivalent to approximately HK\$378,412,000). The 2017 Senior Notes are denominated in US\$, due on 12 December 2019, and with an interest rate at 8% per annum.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

18. BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

- (d) The Group's bank and other borrowings with carrying amounts of HK\$1,524,042,000 (31 December 2018: HK\$1,569,398,000), HK\$13,996,830,000 (31 December 2018: HK\$13,773,675,000) and HK\$3,586,005,000 (31 December 2018: HK\$3,802,082,000) are denominated in HK\$, RMB and US\$, respectively.
- (e) As at 30 June 2019, the Group failed to comply with a financial covenant in respect of the senior notes with an aggregate carrying amount of HK\$3,586,005,000, which may become repayable on demand and have been classified as a current liability as at 30 June 2019. As at 31 December 2018, the Group failed to comply with a financial covenant in respect of an other loan with a carrying amount of HK\$540,922,000, which may become repayable on demand and has been classified as a current liability as at 31 December 2018.

19. SHARE CAPITAL

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Authorised 10,000,000,000 shares of HK\$0.1 each	1,000,000	1,000,000
Issued and fully paid 7,194,417,247 (31 December 2018: 6,424,417,247) ordinary shares of HK\$0.1 each	719,442	642,441

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

19. SHARE CAPITAL *(Continued)*

On 2 January 2019, an aggregate of 770,000,000 ordinary shares were issued at the subscription price of HK\$1.30 per share for a cash consideration of HK\$1,001 million, which was received and recorded by the Group as subscription monies received as at 31 December 2018, before deducting share issue expenses of approximately HK\$1 million.

20. PERPETUAL CAPITAL SECURITIES

On 29 October 2018, the Company issued perpetual capital securities with a principal amount of HK\$800,000,000.

The securities confer the holders a right to receive distributions at the applicable distribution rate of 6% per annum from and including 29 October 2018, payable semi-annually on 20 June and 20 December of each year. The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the securities. Unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amount, the Company shall not declare or pay any dividends, distributions or make payment on, and will procure that no dividend or other payment is made on or redeem, reduce, cancel, buy-back or acquire for any consideration any share capital thereof. The securities may be redeemed at the option of the Company, in whole but not in part.

In the opinion of the Directors, the Company is able to control the delivery of cash or other financial assets to the holders of the perpetual capital securities due to redemption other than an unforeseen liquidation of the Company. Accordingly, the perpetual capital securities are classified as equity instruments of the Company.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

21. FINANCIAL GUARANTEES

The Group had the following financial guarantees as at the end of the reporting period:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Guarantees in respect of the mortgage facilities provided to certain purchasers of the Group's properties	3,512,943	3,313,578

As at 30 June 2019, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any auction banks, net of any auction proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans, in the event of default on mortgage repayments by these purchasers, the banks are entitled to take over the legal titles and will realise the pledged properties through open auction. The Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

21. FINANCIAL GUARANTEES *(Continued)*

The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers, which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees at initial recognition and the expected credit losses allowance are not significant as the Directors consider that in the event of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties.

22. CAPITAL AND OTHER COMMITMENTS

The Group had the following capital and other commitments as at the end of the reporting period:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Contracted, but not provided for:		
Properties under development	1,580,997	1,323,811
Acquisition of land use rights	3,998,513	4,014,306
	5,579,510	5,338,117

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

23. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Rong De	Ultimate holding company of the Company
Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi)	Major shareholder of Rong De, the chairman of the Company's board of directors (the "Board"), the Company's executive director, and a key management personnel of the Company
Mr. Liao Tengjia	Major shareholder of Rong De, deputy chairman of the Board, the Company's executive director and a key management personnel of the Company
Mr. Huang Jiajue	Deputy chairman of the Board, the Company's executive director, and a key management personnel of the Company
Guangdong Zhuguang Group Company Limited (“GD Zhuguang Group”)	Mr. Liao Tengjia has significant influence in this company
Guangzhou Zhuguang Investment Company Limited (“GZ Zhuguang Investment”)	Mr. Liao Tengjia has significant influence in this company
Guangzhou Conghua Zhuguang Investment Company Limited (“GZ Conghua Zhuguang Investment”)	Mr. Liao Tengjia has significant influence in this company

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

23. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Name and relationship with related parties *(continued)*

Name	Relationship
Guangzhou Zhuguang Property Development Company Limited ("GZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Shenzhen Zhuguang Property Company Limited ("SZ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Beijing Zhuguang Property Development Company Limited ("BJ Zhuguang Property")	Mr. Liao Tengjia has significant influence in this company
Guangzhou Yifa Industrial Development Co., Ltd ("Yifa Industrial")	Mr. Liao Tengjia has significant influence in this company
Qingyuan Qingxin District Huilihao Real Estate Company Limited ("Qingyuan Huilihao")	Mr. Liao Tengjia has significant influence in this company

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

23. RELATED PARTY TRANSACTIONS (Continued)

(a) **Name and relationship with related parties** (continued)

In addition to the transactions and balances detailed elsewhere in the interim financial information, the Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Sales of properties to the key management	(i)	—	27,101
Project management service income from BJ Zhuguang Property	(i)	—	103,494
Project management service income from GZ Zhuguang Investment	(i)	—	140,696
Project management service income from Qingyuan Huilihao	(i)	—	8,382
Finance component of income from GD Zhuguang Group and its subsidiaries	(ii)	509,022	—
Interest income from GD Zhuguang Group	(iii)	48,765	—

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

23. RELATED PARTY TRANSACTIONS *(Continued)*

(a) **Name and relationship with related parties** *(continued)*

Notes:

- (i) The above transactions were conducted in accordance with the terms of the underlying agreements.
- (ii) The finance component of income was derived from the contract assets related to urban redevelopment projects in accordance with the terms of the underlying agreements.
- (iii) The interest income was derived from the deposit for acquisition of equity interest in a property development project.
- (iv) Certain related parties have provided pledges and guarantees for the Group's bank and other borrowings of HK\$12,650,495,000 at 30 June 2019 (31 December 2018: HK\$11,910,267,000).
- (v) Certain related parties have provided pledges and guarantees for the Group's senior notes of HK\$3,586,005,000 (31 December 2018: HK\$3,551,193,000) and warrants of HK\$1,000 (31 December 2018: HK\$17,964,000) at 30 June 2019.
- (vi) During the six months ended 30 June 2019 and 2018, the Group's principal place of business in the PRC was provided by GD Zhuguang Group for which no charge was made.
- (vii) In the opinion of the Directors, the related party transactions were conducted in the ordinary course of business.

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

23. RELATED PARTY TRANSACTIONS (Continued)

(b) **Outstanding balances with related parties:**

As at 30 June 2019 and 31 December 2018, the Group had the following material balances with related parties:

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Amounts due from related parties included in trade receivables:			
— Qingyuan Huilihao	23(b)(iii)	9,146	9,182
Amounts due from related parties included in other receivables			
— GD Zhuguang Group	23(b)(iv)	50,736	160,781
Contract assets with related parties included in prepayments, deposits and other assets			
— GD Zhuguang Group	14	1,231,539	—
— GZ Zhuguang Property	14	3,102,838	—
— GZ Conghua Zhuguang Investment	14	2,247,784	—
— SZ Zhuguang Property	14	358,981	—
		6,941,142	—

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)

30 June 2019

23. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties: (continued)

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Amounts due from related parties included in prepayments and deposits			
— GD Zhuguang Group	14	795,760	1,154,985
— GZ Zhuguang Property	14	—	2,841,812
— GZ Conghua Zhuguang Investment	14	—	728,144
		795,760	4,724,941

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)
30 June 2019

23. RELATED PARTY TRANSACTIONS (Continued)

(b) **Outstanding balances with related parties:** (continued)

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Amounts due from related parties included in financial assets at fair value through profit or loss			
— GZ Zhuguang Investment	15(a)	1,290,237	1,314,856
— BJ Zhuguang Property	15(a)	2,059,548	2,035,753
— Yifa Industrial	15(a)	1,966,665	1,899,425
		5,316,450	5,250,034
Amounts due to related parties included in other payables			
— GD Zhuguang Group	23(b)(i)	869,712	390,347
— GZ Zhuguang Investment	23(b)(i)	—	11
— SZ Zhuguang Property	23(b)(i)	—	66
— GZ Conghua Zhuguang Investment	23(b)(i)	—	262
		869,712	390,686
Amount due to the ultimate holding company (Rong De)	23(b)(ii)	24,030	24,030

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

23. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Outstanding balances with related parties: *(continued)*

Notes:

- (i) Amounts due to related parties included in other payables are unsecured, interest-free and repayable on demand.
- (ii) Amount due to the ultimate holding company is unsecured, interest-free and repayable on demand.
- (iii) Amount due from Qingyuan Huilihao included in trade receivables was derived from the provision of project management services, which would be settled in accordance with mutually agreed terms.
- (iv) Amount due from GD Zhuguang Group included in other receivables was interest receivable, which would be settled in accordance with mutually agreed terms.

NOTES TO INTERIM FINANCIAL INFORMATION (Continued)

30 June 2019

23. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

In the opinion of the Directors, the directors and the chief executive officer of the Company represented the key management personnel of the Group and the compensation of the key management personnel are set out as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Fees	720	720
Other emoluments:		
Salaries, allowances and benefits in kind	9,882	8,693
Pension scheme contributions	107	109
	9,989	8,802
	10,709	9,522

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments as at 30 June 2019 and 31 December 2018 approximated to their fair values.

Management has assessed that the fair values of trade and other receivables, deposits, restricted cash, cash and cash equivalents, term deposits, trade and other payables and current portion of bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The carrying amounts of the non-current portion of bank and other borrowings approximate to their fair values. The fair values of the non-current portion of bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank and other borrowings as at 30 June 2019 and 31 December 2018 was assessed to be insignificant.

The Group has estimated the fair value of unlisted PRC investment funds by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of derivative financial instruments are the same as their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2019

(Unaudited)	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets				
Financial assets at fair value through profit or loss	–	–	5,386,216	5,386,216
Financial liabilities				
Derivative financial instruments	–	–	1	1

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
(Audited)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Financial assets at fair value through profit or loss	—	—	5,320,075	5,320,075
Financial liabilities				
Derivative financial instruments	—	—	17,964	17,964

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*
30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The movements in fair value measurements of financial assets within Level 3 is as follows:

	2019 (Unaudited) HK\$'000	2018 (Audited) HK\$'000
Financial assets at fair value through profit or loss:		
At 1 January	5,320,075	26,175
Effect of adoption of HKFRS 9	—	3,386,082
At 1 January (restated)	5,320,075	3,412,257
Change in fair value during the period/year	389,483	459,600
(Disposal)/addition during the period/year	(295,215)	1,595,266
Exchange realignment	(28,127)	(147,048)
At 30 June/31 December	5,386,216	5,320,075

The details of the valuation technique and the inputs used in the fair value measurement of financial assets at fair value through profit or loss and derivative financial instruments have been disclosed in note 15 and note 17 to the interim financial information, respectively.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (year ended 31 December 2018: Nil).

NOTES TO INTERIM FINANCIAL INFORMATION *(Continued)*

30 June 2019

25. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 30 August 2019.

OTHER INFORMATION

INTERIM DIVIDEND

No interim dividend in respect of the six months ended 30 June 2019 was proposed by the Board (six months ended 30 June 2018: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

On 23 June 2017, South Trend, a wholly-owned subsidiary of the Company, as purchaser, Quan Xing Holdings Limited (荃興控股有限公司), as vendor (“Quan Xing”), and Cheung Fong Wing, as guarantor (“All Flourish Guarantor”), entered into a sale and purchase agreement (“All Flourish SPA”), which was amended and supplemented by the supplemental agreements dated 28 March 2018, 2 August 2018 and 28 December 2018 entered into among South Trend, Quan Xing and the All Flourish Guarantor, in relation to the acquisition of the entire issued share capital of All Flourish Investments Limited (通興投資有限公司) (“All Flourish”) at the consideration of RMB3.5 billion (equivalent to approximately HK\$3.95 billion) (subject to adjustment) (“All Flourish Acquisition”). As completion of the All Flourish Acquisition is conditional upon and subject to the satisfaction of certain conditions precedent (unless having been otherwise waived) on or before 30 June 2019 (or such later date as South Trend and Quan Xing may agree in writing) and such conditions precedent have not been fulfilled by 30 June 2019, the All Flourish SPA lapsed on 30 June 2019. Further details of the All Flourish Acquisition are set out in the announcements of the Company dated 23 June 2017, 27 October 2017, 14 February 2018, 28 March 2018, 29 June 2018, 2 August 2018, 31 October 2018, 28 December 2018 and 1 July 2019.

The Company did not enter into any agreements in relation to material acquisitions or disposals during the Period Under Review.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

- (a) As at 30 June 2019, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (ii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Name of Director/ chief executive of the Company	Nature of interest	Number of Shares	Approximate percentage of total issued share capital of the Company (Note 2)
Chu Hing Tsung (alias Zhu Qing Yi)	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Liao Tengjia	Interest of a controlled corporation (Note 1)	4,825,791,289	67.08%
Huang Jiajue	Beneficial ownership	14,330,000	0.20%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) *(continued)*

Notes:

1. 4,825,791,289 Shares were held by Rong De, which was owned as to 34.06% by Mr. Chu Hing Tsung and as to 36.00% by Mr. Liao Tengjia. Mr. Chu Hing Tsung and Mr. Liao Tengjia were deemed to be interested in the Shares held by Rong De under the SFO. To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 380,000,000 Shares, 3,051,112,000 Shares, 100,000,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS as senior lender and Cinda as junior lender, The Bank of New York Mellon, Hong Kong Branch ("BNY HK"), China Huarong Macau (HK) Investment Holdings Limited ("China Huarong Macau") and Cinda respectively. Mr. Liao Tengjia is a director of Rong De.
2. The total number of the issued Shares as at 30 June 2019 (i.e. 7,194,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) *(continued)*

Interest in shares of the Company's associated corporation

Name of Director/ chief executive of the Company	Name of associated corporation	Capacity	Total number of ordinary shares	Approximate percentage of total interest
Chu Hing Tsung (alias Zhu Qing Yi)	Rong De	Beneficial owner	68,120	34.06%
Chu Muk Chi (alias Zhu La Yi)	Rong De	Beneficial owner	59,888	29.94%
Liao Tengjia	Rong De	Beneficial owner	71,992	36.00%

(b) Save as disclosed in this interim report, as at 30 June 2019, none of the Directors or the chief executive of the Company had any interest and short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (ii) were required, pursuant to the Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

- (a) As at 30 June 2019, so far as it is known to the Directors or the chief executive of the Company, the following persons, other than a Director or the chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and were required to be kept under section 336 of the SFO:

Interests of substantial Shareholders

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
Rong De (Note 1)	Beneficial owner	4,825,791,289 (L)	67.08%	—	—

Interests of other persons

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
CCBIS (Note 1)	Security interest	380,000,000 (L)	5.28%	—	—
Cinda (Note 1)	Security interest	480,000,000 (L)	6.67%	—	—

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
China Great Wall Asset Management Corporation ("CGWAMC") (Note 2)	Interest of controlled corporations	1,200,000,000 (L)	16.68%	—	—
Central Huijin Investment Limited ("Central Huijin") (Notes 3 and 4)	Interest of controlled corporations	—	—	65,363,127 (L)	0.91%
	Security interest	3,051,112,000 (L)	42.41%	—	—
Agricultural Bank of China Limited ("ABCL") (Note 3)	Interest of controlled corporations	—	—	45,754,189 (L)	0.64%
	Security interest	3,051,112,000 (L)	42.41%	—	—
Ministry of Finance of the People's Republic of China ("MOF") (Note 3)	Interest of controlled corporations	—	—	45,754,189 (L)	0.64%
	Security interest	3,051,112,000 (L)	42.41%	—	—

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
China Construction Bank Corporation ("CCB") (Note 4)	Interest of controlled corporations	—	—	19,608,938 (L)	0.27%
	Security interest	3,051,112,000 (L)	42.41%	—	—
The Bank of New York Mellon Corporation ("BNY") (Note 5)	Security interest	3,021,112,000 (L)	41.99%	—	—
China Orient Asset Management Co., Ltd. ("COAM") (Note 6)	Interest of controlled corporations	3,021,112,000 (L)	41.99%	163,407,821 (L)	2.27%
Cheung Fong Wing (Note 7)	Interest of a controlled corporation	418,500,000 (L)	5.82%	—	—

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (Note 10)
Quan Xing Holdings Limited ("Quan Xing") (Note 7)	Beneficial owner	418,500,000 (L)	5.82%	—	—
中國華融資產管理股份有限公司 ("CHAMCL") (Note 8)	Interest of controlled corporations	584,012,000 (L)	8.12%	—	—
	Security interest	1,065,000,000 (L)	14.80%	—	—
China Cinda Asset Management Co., Ltd. ("CCAM") (Note 9)	Interest of controlled corporations	420,000,000 (L)	5.84%	—	—

(L) Long position

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Notes:

1. The Shares comprised the 4,825,791,289 Shares beneficially owned by Rong De as stated under "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures – Long position in the Shares". To the best knowledge of the Directors, out of the aforesaid 4,825,791,289 Shares, 380,000,000 Shares, 3,051,112,000 Shares, 100,000,000 Shares and 100,000,000 Shares have been pledged by Rong De to CCBIS as senior lender and Cinda as junior lender, BNY HK, China Huarong Macau and Cinda respectively. Mr. Liao Tengjia is a director of Rong De.
2. According to the disclosure of interest notice filed by CGWAMC on 17 July 2014, Evergreat Prosper Limited held direct interest in the Shares and is a wholly-owned subsidiary of Great Wall Pan Asia International Investment Company Limited ("GWPAIICL"). GWPAIICL is a wholly-owned subsidiary of CGWAMC. Accordingly, GWPAIICL and CGWAMC are deemed to be interested in the Shares held by Evergreat Prosper Limited by virtue of the provisions of the SFO.
3. According to the disclosure of interest notices filed by ABCL and Heroic Day Limited ("Heroic Day") on 4 January 2019, Heroic Day held direct interest in 3,051,112,000 Shares and 45,754,189 underlying Shares. Heroic Day is a wholly-owned subsidiary of ABCI Investment Management Limited ("ABCIIM"). ABCIIM is a wholly-owned subsidiary of ABC International Holdings Limited ("ABCIH"). ABCIH is a wholly-owned subsidiary of ABCL. According to the disclosure of interest notice filed by Central Huijin and MOF on 4 January 2019, ABCL is in turn owned as to 40.03% by Central Huijin and as to 39.21% by MOF. Accordingly, ABCIIM, ABCIH, ABCL, Central Huijin and MOF are deemed to be interested in the Shares and the underlying Shares held by Heroic Day by virtue of the provisions of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Notes: *(continued)*

4. According to the disclosure of interest notice filed by CCB on 4 January 2019, CCB International Overseas Limited ("CCBIO") held direct interest in 3,051,112,000 Shares and 19,608,938 underlying Shares, and is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH"). CCBIH is a wholly-owned subsidiary of CCB Financial Holdings Limited ("CCBFH"). CCBFH is a wholly-owned subsidiary of CCB International Group Holdings Limited ("CCBIG"). CCBIG is a wholly-owned subsidiary of CCB. According to the disclosure of interest notice filed by Central Huijin on 4 January 2019, CCB is owned as to 57.11% by Central Huijin. Accordingly, CCBIH, CCBFH, CCBIG, CCB and Central Huijin are deemed to be interested in the Shares and the underlying Shares held by CCBIO by virtue of the provisions of the SFO.
5. According to the disclosure of interest notice filed by BNY on 3 January 2017, BNY HK held direct interest in the Shares and is wholly-owned by BNY. Accordingly, BNY is deemed to be interested in the Shares held by BNY HK by virtue of the provisions of the SFO.
6. According to the disclosure of interest notice filed by COAM on 7 January 2019, Blooming Rose Enterprises Corp. ("Blooming") held direct interest in 3,021,112,000 Shares and 163,047,821 underlying Shares, and is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited ("COAM International"). COAM International is held as to 50% by Wise Leader Assets Limited ("Wise Leader") and as to 50% by Dong Yin Development (Holdings) Limited ("Dong Yin"). Wise Leader is held as to 100% by Dong Yin and Dong Yin is a wholly-owned subsidiary of COAM. Accordingly, COAM International, Wise Leader, Dong Yin and COAM are deemed to be interested in the Shares and the underlying Shares held by Blooming by virtue of the provisions of the SFO.
7. According to the disclosure of interest notice filed by Quan Xing on 25 April 2019, Quan Xing which is wholly-owned by Mr. Cheung Fong Wing, was the beneficial owner of 418,500,000 Shares. Accordingly, Mr. Cheung Fong Wing is deemed to be interested in the Shares held by Quan Xing by virtue of the provisions of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Notes: *(continued)*

8. According to the disclosure of interest notice filed by CHAMCL on 25 April 2019 ("CHAMCL Notice"), CHAMCL held direct interest in 1,065,000,000 Shares. In addition, Visual Dome Fund L.P. ("Visual Dome") held direct interest in 257,700,000 Shares. Visual Dome, the general partner of which is Micro Vision Fund Ltd., is held as to 50% by its limited partner, Ocean Charm Investments Limited ("Ocean Charm"). Ocean Charm is a wholly-owned subsidiary of Linewear Assets Limited ("Linewear"), which is in turn wholly-owned by Huarong International Financial Holdings Limited ("Huarong International"). Huarong International is held as to 51% by Camellia Pacific Investment Holding Limited ("Camellia Pacific"), which in turn is a wholly-owned subsidiary of China Huarong International Holdings Limited ("CHIH"). CHIH is held as to 11.90% by Huarong Zhiyuan Investment & Management Co., Ltd. ("HZY") and as to 88.10% by Huarong Real Estate Co., Ltd. ("HRE"). Each of HZY and HRE is a wholly-owned subsidiary of CHAMCL. Accordingly, Ocean Charm, Linewear, Huarong International, Camellia Pacific, CHIH, HRE, HZY and CHAMCL are deemed to be interested in the Shares held by Visual Dome by virtue of the provisions of the SFO. According to the CHAMCL Notice, Beyond Steady Limited ("Beyond Steady"), a wholly-owned subsidiary of Linewear, held direct interest in 226,312,000 Shares. Accordingly, Linewear, Huarong International, Camellia Pacific, CHIH, HRE, HZY and CHAMCL are deemed to be interested in the Shares held by Beyond Steady by virtue of the provisions of the SFO. According to the CHAMCL Notice, China Huarong Macau held direct interest in 100,000,000 Shares and is a wholly-owned subsidiary of 中國華融(澳門)國際股份有限公司 ("Huarong Macau"). Huarong Macau is owned as to 51% by Huarong (HK) Industrial and Financial Investment Limited ("Huarong HK"), which is a wholly-owned subsidiary of HRE. Accordingly, Huarong Macau, Huarong HK, HRE and CHAMCL are deemed to be interested in the Shares held by China Huarong Macau by virtue of the provisions of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

(a) *(continued)*

Interests of other persons *(continued)*

Notes: *(continued)*

9. According to the disclosure of interest notice filed by CCAM on 15 April 2019, Cinda held direct interest in 420,000,000 Shares, and is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited ("CCHK"), which is in turn wholly-owned by CCAM. Accordingly, CCHK and CCAM are deemed to be interested in the Shares held by Cinda by virtue of the provisions of the SFO.

10. The total number of issued Shares as at 30 June 2019 (i.e. 7,194,417,247 Shares) had been used for the calculation of the approximate percentage shareholdings in the Company

(b) Save as disclosed above, the Directors and the chief executive officer of the Company are not aware of any other persons (not being Directors or chief executive of the Company) as at 30 June 2019, who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and were required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the Period Under Review.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules during the Period Under Review, other than Code Provision E.1.2 of the CG Code as specified with considered reasons below.

Code Provision E.1.2 of the CG Code requires that the chairman of the Board ("Chairman") should attend the annual general meeting of the Company ("AGM"). Mr. Chu Hing Tsung (alias Mr. Zhu Qing Yi), the Chairman, did not attend the AGM held on 12 June 2019 due to his prior engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Code as contained in Appendix 10 to the Listing Rules. Specific enquiry has been made of all Directors, who confirmed that they have complied with the required standards set out in the Code during the Period Under Review.

AUDIT COMMITTEE

The audit committee of the Board (“Audit Committee”) comprises three independent non-executive Directors. The Audit Committee has reviewed with the management, the accounting principles and policies adopted by the Group and discussed with the management regarding auditing, internal controls and financial reporting matters, including the review of the unaudited interim condensed consolidated financial information for the six months ended 30 June 2019 and this interim report, which is of the opinion that they comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

PUBLICATION OF THE INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim report for the six months ended 30 June 2019 of the Company containing all the information required by the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhuguang.com.hk, and will be despatched to the Shareholders in due course.

APPRECIATION

On behalf of the Board, the Chairman would like to express the Board’s gratitude and appreciation to the Shareholders for their support and the employees for their contribution to the Group.

On behalf of the Board

Zhuguang Holdings Group Company Limited

Chu Hing Tsung

Chairman

Hong Kong, 30 August 2019