四海國際集團有限公司
Cosmopolitan International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 120)

ANNOUNCEMENT OF 2019 INTERIM RESULTS

FINANCIAL AND BUSINESS HIGHLIGHTS

	Six months ended 30th June, 2019	**Six months ended 30th June, 2018**	**% Change**
	(Unaudited)	**(Unaudited)**	
	HK$'M	**HK$'M**	
Revenue	**48.9**	2,027.6	**-97.6%**
Operating profit before depreciation, finance costs and tax	**18.1**	438.5	**-95.9%**
Profit/(Loss) for the period attributable to equity holders of the parent	**(57.5)**	238.7	**N/A**
Basic earnings/(loss) per share (including ordinary share and convertible preference share) attributable to equity holders of the parent	**HK(0.85) cent**	HK3.53 cents	**N/A**

	As at 30th June, 2019	**As at 31st Dec, 2018**	
	(Unaudited)	**(Unaudited)**	
Net asset value per share (including ordinary share and convertible preference share) attributable to equity holders of the parent	**HK$0.20**	HK$0.21	**-4.8%**

- **The Group recorded an unaudited consolidated loss attributable to shareholders of HK$57.5 million, as compared to a consolidated profit of HK$238.7 million attained for the corresponding period in 2018.**

- **The loss recorded for the period under review was mainly due to the finance costs incurred, particularly that the amount of finance costs presently capitalised to the Group's development projects is lower than the levels in previous financial years. Moreover, despite the contracted pre-sales of the residential units in the third stage of the Group's composite development in Chengdu, the PRC, the profits recognised from property sales for the period were relatively small, as profits from property sales will only be recognised when the properties sold are handed over to the respective purchasers after completion of the relevant sales.**

- **The development works of the third stage of Regal Cosmopolitan City in Chengdu, comprising ten residential towers with a total of 1,555 units, are in steady progress. Presale of two residential towers with 314 units within this third stage was commenced in March 2019 and, up to date, 268 units have been contracted as sold. The Group has further launched the presale of another three residential towers with 472 units recently this August and the response is favourable.**

- **The sale of the commercial complex in the Group's Regal Renaissance development project in Tianjin, the PRC, is continuing and certain parts have been leased out for rental income. The superstructure works of the two office towers have resumed since June 2019 and unit presale is anticipated to commence in the second quarter of 2020.**

- **The Group is still continuing its discussions with the vendor and the target investee group on the investment proposal with respect to the Group's possible investment in a sizeable logistic services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC, as previously announced. In the meantime, the Group is also conducting negotiations with a potential investor for its possible investment in these logistics businesses.**

- **With an objective to broaden its business spectrum, the Group entered into a memorandum of understanding in June 2019 with certain independent third parties for the possible investment by the Group in an operating company principally engaged in the management and trading of tradable or transferable China Certified Emissions Reduction (Carbon Assets) in China.**
- **More recently, in July 2019, a wholly owned subsidiary of the Company acquired an 80% equity interest in a PRC-incorporated company, which has contractual right to acquire a 10% interest in another PRC-incorporated real estate company that partners with various reputable real estate developers and undertakes joint developments for both industry specific real estate and residential/commercial real estate in China.**
- **When the remaining component parts of the Group's development projects in Chengdu and Tianjin are gradually completed and sold, they will continue to contribute substantial cash flow and profits to the Group in the coming years.**
- **With an objective to enhance and broaden its earnings base, the Group is actively working on new investment opportunities that can widen its business spectrum.**

FINANCIAL RESULTS

For the six months ended 30th June, 2019, the Group recorded an unaudited consolidated loss attributable to shareholders of HK$57.5 million, as compared to a consolidated profit of HK$238.7 million attained for the corresponding period in 2018.

The Group's core assets presently comprise two composite development projects in Tianjin and Chengdu in the People's Republic of China. As these projects are being developed in stages, the profit contribution from the disposals of their component parts is effectively linked to their respective completion dates and sales status. Consequently, due to the different timing in the recognition of profit generated from such property disposals, the results of the Group could fluctuate between individual financial reporting periods.

As mentioned in the profit warning announcement published by the Company on 21st August, 2019, the loss recorded for the period under review was mainly due to the finance costs incurred, particularly that the amount of finance costs presently capitalised to the Group's development projects is lower than the levels in previous financial years. Moreover, despite the contracted pre-sales of the residential units in the third stage of the Group's composite development in Chengdu, the profits recognised from property sales for the period were relatively small, as profits from property sales will only be recognised when the properties sold are handed over to the respective purchasers after completion of the relevant sales. Whereas for the corresponding half year period in 2018, the aggregate amount of profit contribution from property disposals was over HK$470 million.

BUSINESS OVERVIEW

During the period under review, China's economy expanded by 6.3% over the same period in 2018. However, weighed down by the softness in manufacturing output due to the escalated trade disputes with the United States, trade flows have been weak. Regarding the property sector in China, the central government continued to implement administrative policies to regulate the supply and demand and, in some cases, the sale prices of residential commodity units, with a view to controlling speculative activities. For the first six months of 2019, the property market was operating steadily. The price of residential properties on the whole increased moderately, but at a slower pace than in the comparative period in 2018.

The development works of the third stage of Regal Cosmopolitan City in Chengdu, comprising ten residential towers with a total of 1,555 units, are in steady progress. Presale of two residential towers with 314 units within this third stage was commenced in March 2019 and, up to date, 268 units have been contracted as sold. The Group has further launched the presale of another three residential towers with 472 units recently this August and the response is favourable. In the meantime, the business remodeling works of the hotel within this composite development have been completed and the hotel is scheduled to be opened in phases from the end of 2020. The development works of the other remaining component parts, consisting of a commercial complex and five towers of office accommodation, are also in progress.

As regarding the Group’s Regal Renaissance development project in Tianjin, the sale of the commercial complex is continuing and certain parts have been leased out for rental income. The superstructure works of the two office towers have resumed since June 2019 and unit presale is anticipated to commence in the second quarter of 2020.

Further detailed information on these two development projects in Chengdu and Tianjin is contained in the section headed “Management Discussion and Analysis” in this announcement.

As previously disclosed, the Group entered into certain deposit agreements and loan agreements in August and September 2018 with independent third parties for the possible investment by the Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. Latest update on this possible investment is also contained in the “Management Discussion and Analysis” section.

With an objective to broaden its business spectrum, the Group entered into a memorandum of understanding (MOU) with certain independent third parties for the possible investment by the Group in an operating company principally engaged in the management and trading of tradable or transferable China Certified Emissions Reduction (Carbon Assets) in China. If the investment proposal materialises, the operating company will become an associate of the Group. Save for the provisions in relation to, among others, due diligence review and exclusivity period, the MOU does not constitute legally-binding commitment on the parties. Further details on the terms of the MOU are contained in the joint announcement by the Company dated 26th June, 2019. The Group is presently undertaking due diligence review on the operating company and its business, and in the meantime, conducting negotiations on the final terms of the proposed investment. Further announcement will be made in the event that a formal agreement on the investment proposal is signed by the parties or as and when required.

More recently, in July 2019, a wholly owned subsidiary of the Company acquired an 80% equity interest in a PRC-incorporated company, which has contractual right to acquire a 10%

interest in another PRC-incorporated real estate company that partners with various reputable real estate developers and undertakes joint developments for both industry specific real estate and residential/commercial real estate in China.

OUTLOOK

Faced with the complex external environment, the central government of China has put into effect various accommodative fiscal policies and tax cuts to support domestic spending, with a view to maintaining the growth in its gross domestic product within the targeted range of 6 to 6.5 percent for the full year of 2019. Under the ongoing business remodeling process in the economy of China, it is expected that the performance of the property market in the first and second tier cities will continue to outpace the peripheral cities.

When the remaining component parts of the Group's development projects in Chengdu and Tianjin, both being major second tier cities, are gradually completed and sold, they will continue to contribute substantial cash flow and profits to the Group in the coming years. With an objective to enhance and broaden its earnings base, the Group is actively working on new investment opportunities that can widen its business spectrum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in property development and investment and other investments, which are mainly focused in the PRC, and investment in financial assets.

The operating performance of the Group's property and other investment businesses during the period under review and future prospects are contained in the sections headed "Business Overview" and "Outlook" above as well as in this sub-section.

The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the above section headed "Business Overview" and this sub-section.

A brief review on the property projects currently undertaken as well as the possible investment in logistics business by the Group in the PRC is set out below.

Property Development

Chengdu Project – Regal Cosmopolitan City

Located in the Xindu District in Chengdu, Sichuan Province, the project is a mixed use development consisting of residential, hotel, commercial and office components, with an overall total gross floor area of approximately 495,000 square metres (5,330,000 square feet).

While the nine residential towers in the first and second stages of the Chengdu project have been completed, the superstructure works of the third stage of the development consisting of ten residential towers of total 1,555 units, about 4,100 square metres (44,100 square feet) of commercial accommodations and 1,941 car parking spaces are in steady progress. Presale of two residential towers consisting of 314 units in the third stage of the development was commenced in March 2019. Up to date, a total of 268 residential units have been contracted as sold, securing aggregate sales proceeds of approximately RMB334 million (equivalent to approximately HK$365 million). The presale of another three residential towers consisting of 472 units has further been launched recently this August and the response is favourable.

The business remodeling works of the hotel have been completed and corresponding interior design works are progressing. The interior fitting-out works are scheduled to commence in early 2020 and the hotel is scheduled to open in phases from the end of 2020.

The updated scheme design of the remaining commercial components within the development, comprising a six-storey commercial complex of about 48,000 square metres (516,700 square feet) and five towers of office accommodations of about 90,500 square metres (974,100 square feet), have been approved by the local authority and the detailed design works have also commenced. The construction works are planned to be started in late 2019 and the associated presale programme is expected to be launched in late 2020.

Tianjin Project – Regal Renaissance

Located in the Hedong District in Tianjin, this project is a mixed use development comprising residential, commercial and office components with total gross floor area of about 145,000 square metres (1,561,000 square feet).

The sale of the commercial complex, comprising mainly shops of about 19,000 square metres (205,000 square feet), is continuing steadily and contracts for sale have been secured for some of the shop units. Certain parts of the commercial complex have in the meantime been leased out for rental income.

The superstructure works of the two office towers have resumed since June 2019. The presale of the office accommodations is planned to be launched in the second quarter of 2020.

Xinjiang Project

This is a re-forestation and land grant project for a land parcel with site area of about 7,600 mu in accordance with the relevant laws and policies in Urumqi, Xinjiang Uygur Autonomous Region. The Group has re-forested an aggregate area of about 4,300 mu within the project site and in accordance with the relevant government policies of Urumqi, a parcel of land with an area of about 1,843 mu (equivalent to approximately 1,228,700 square metres) within the project site would be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Group continues to maintain the re-forested area and communicate with the relevant government authority to initiate appropriate measures to settle the disputes over certain portions of the land in the project site that have been illegally occupied. Based on the legal advice obtained, the legitimate interests of the Group in this re-forestation and land grant contract remain valid and effective.

Logistics Business

Possible Investment in a Logistics Group

As previously disclosed, the Group entered into certain deposit agreements and loan agreements in August and September 2018 with independent third parties for the possible investment by the Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. The Group has paid deposits to the vendor and the target investee group in a total amount of RMB170 million and also granted loans to the target investee group in an aggregate sum of RMB150 million due for repayment in November 2018. Together with the interest accrued on the loans, the total amount of such deposits and loans amounted to RMB360.7 million in the books of the Group as at 30th June, 2019.

Due to the complex operating structure and the financial status of the target investee group, the negotiations on the final terms of the proposed investment by the Group in the target investee group and certain of its selected businesses have not progressed as smoothly as initially envisaged. The Group is still continuing its discussions with the vendor and the target investee group on the investment proposal and, in the meantime, is also conducting negotiations with a potential investor for its possible investment in these logistics businesses. Further announcement will be made as and when an investment proposal is finalised.

In the meantime, the deposits and the loan amounts (together with the interest accrued) continue to be secured primarily by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee group and certain associates of the vendor.

FINANCIAL REVIEW

ASSETS VALUE

As at 30th June, 2019, the Group's net assets attributable to equity holders of the parent amounted to HK$1,353.4 million, representing approximately HK$0.20 per share (including ordinary share and convertible preference share).

CAPITAL RESOURCES AND FUNDING

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits, and treasury and yield enhancement products are deployed when circumstances are considered to be appropriate.

The acquisition of the two ongoing development projects in the PRC in 2013 had been financed by the vendors by way of deferred payment of the considerations payable for a period of 3 years, subject to the terms of the relevant sale and purchase agreements. With an objective to align the due dates of the considerations payable with the latest progress and completion schedules of the two development projects, by virtue of the agreements entered into between the Group and the vendors and completed in 2016, (i) the consideration payables owing to one of the vendors were refinanced by new 5-year loan facilities, and (ii) the consideration payable owing to the other vendor was repaid through its subscription of the optional convertible bonds issued by the Group.

Construction and related costs for the property projects for the time being are principally financed by internal resources and proceeds from the presale of the units. Project financing may be arranged on appropriate terms to cover a portion of the land cost and/or the construction cost, with the loan maturity matching with the estimated project completion date.

Cash Flows

Net cash flows used in operating activities during the period under review amounted to HK$134.1 million (2018 – HK$102.9 million). Net interest payment for the period amounted to HK$14.6 million (2018 – HK$10.0 million).

Borrowings and Gearing

As at 30th June, 2019, the Group had cash and bank balances and deposits of HK$270.1 million (31st December, 2018 – HK$336.2 million) and the Group's borrowings including convertible bonds, net of cash and bank balances and deposits, amounted to HK$1,957.2 million (31st December, 2018 – HK$1,914.4 million).

As at 30th June, 2019, the gearing ratio of the Group was 41.3% (31st December, 2018 – 41.3%), representing the Group's borrowings including convertible bonds, net of cash and bank balances and deposits, of HK$1,957.2 million (31st December, 2018 – HK$1,914.4 million), as compared to the total assets of the Group of HK$4,741.2 million (31st December, 2018 – HK$4,638.6 million).

Details of the maturity profile of the borrowings of the Group as of 30th June, 2019 are shown in the condensed consolidated financial statements contained in the interim report for the six months ended 30th June, 2019 of the Company ("Interim Financial Statements") to be published on or before 30th September, 2019.

Lease liabilities

As at 30th June, 2019, the Group had lease liabilities of HK$1.5 million.

Pledge of Assets

As at 30th June, 2019, certain of the Group's bank deposits and financial assets at fair value through profit or loss in the amount of HK$26.3 million (31st December, 2018 – Nil) were pledged to secure general banking facilities granted to the Group.

In addition, the Group's equity interests in the relevant holding companies of the Group's property development projects were pledged to secure the other borrowings and the related interest payable in respect of a loan facility from a fellow subsidiary.

Capital Commitments

Details of the capital commitments of the Group as at 30th June, 2019 are shown in the Interim Financial Statements.

Contingent Liabilities

Details of the contingent liabilities of the Group as at 30th June, 2019 are shown in the Interim Financial Statements.

DIVIDEND

The Directors have resolved not to declare an interim dividend for the financial year ending 31st December, 2019 (2018 – Nil).

HALF YEAR RESULTS

Condensed Consolidated Statement of Profit or Loss

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
REVENUE (Notes 2 & 3)	**48.9**	2,027.6
Cost of sales	**(27.7)**	(1,510.6)
Gross profit	**21.2**	517.0
Other income (Note 3)	**34.2**	5.2
Fair value gains on investment properties, net	**2.7**	–
Fair value losses on financial assets at fair value through profit or loss, net	**(5.6)**	(35.3)
Gain on disposal of an investment property	**1.8**	–
Property selling and marketing expenses	**(7.8)**	(17.5)
Administrative expenses	**(28.4)**	(30.9)
OPERATING PROFIT BEFORE DEPRECIATION	**18.1**	438.5
Depreciation	**(0.9)**	(6.2)
OPERATING PROFIT (Notes 2 & 4)	**17.2**	432.3
Finance costs (Note 5)	**(66.6)**	(48.9)
PROFIT/(LOSS) BEFORE TAX	**(49.4)**	383.4
Income tax (Note 6)	**(8.1)**	(144.7)
PROFIT/(LOSS) FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**(57.5)**	238.7

Condensed Consolidated Statement of Profit or Loss (Cont'd)

	Six months ended 30th June, 2019	Six months ended 30th June, 2018
	(Unaudited)	(Unaudited)
	HK$'M	HK$'M
Attributable to:		
Equity holders of the parent	**(57.5)**	238.7
Non-controlling interests	**–**	–
	(57.5)	238.7
EARNINGS/(LOSS) PER SHARE (INCLUDING ORDINARY SHARE AND CONVERTIBLE PREFERENCE SHARE) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 8)		
Basic	**HK(0.85) cent**	HK3.53 cents
Diluted	**HK(0.85) cent**	HK2.84 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
PROFIT/(LOSS) FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**(57.5)**	238.7
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	**(2.2)**	(40.7)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(59.7)**	198.0
Attributable to:		
Equity holders of the parent	**(59.7)**	198.0
Non-controlling interests	**–**	–
	(59.7)	198.0

Condensed Consolidated Statement of Financial Position

	30th June, 2019 (Unaudited) HK$'M	31st December, 2018 (Audited) HK$'M
NON-CURRENT ASSETS		
Property, plant and equipment	**12.8**	1.8
Right-of-use asset	**1.5**	–
Investment properties	**116.2**	134.5
Properties under development	**906.0**	905.7
Investment in a joint venture	**2.4**	2.4
Deposits and prepayments (Note 9)	**285.4**	280.8
Goodwill	**235.1**	235.1
Total non-current assets	**1,559.4**	1,560.3
CURRENT ASSETS		
Properties under development	**1,860.1**	1,705.8
Properties held for sale	**605.1**	638.3
Loans receivable (Note 10)	**170.6**	170.8
Deposits, prepayments and other assets (Note 9)	**103.8**	49.5
Financial assets at fair value through profit or loss	**172.1**	177.7
Restricted cash	**114.8**	6.5
Pledged bank balances	**0.4**	–
Time deposits	**20.5**	4.8
Cash and bank balances	**134.4**	324.9
Total current assets	**3,181.8**	3,078.3
CURRENT LIABILITIES		
Creditors and accruals	**(277.3)**	(323.9)
Contract liabilities	**(512.6)**	(257.4)
Deposits received	**(4.9)**	(0.7)
Interest bearing bank borrowing	**(7.5)**	–
Other borrowings (Note 11)	**(221.5)**	(267.3)
Lease liabilities	**(0.8)**	–
Tax payable	**(25.7)**	(54.7)
Total current liabilities	**(1,050.3)**	(904.0)
NET CURRENT ASSETS	**2,131.5**	2,174.3
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,690.9**	3,734.6

Condensed Consolidated Statement of Financial Position (Cont'd)

	30th June, 2019 (Unaudited) HK$'M	31st December, 2018 (Audited) HK$'M
NON-CURRENT LIABILITIES		
Creditors and accruals	**(29.0)**	(29.0)
Deposits received	**(2.4)**	(1.6)
Other borrowings (Note 11)	**(1,062.0)**	(1,062.0)
Convertible bonds	**(936.3)**	(921.3)
Lease liabilities	**(0.7)**	–
Deferred tax liabilities	**(307.1)**	(307.6)
Total non-current liabilities	**(2,337.5)**	(2,321.5)
Net assets	**1,353.4**	1,413.1
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**13.5**	13.5
Reserves	**1,339.9**	1,399.6
	1,353.4	1,413.1
Non-controlling interests	**–**	–
Total equity	**1,353.4**	1,413.1

Notes:

1. Accounting Policies

The condensed consolidated financial statements for the six months ended 30th June, 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2018, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2019.

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

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards are not relevant to the preparation of the Group's condensed consolidated financial statement.

The nature and impact of the new and revised HKFRSs are described below:

(a) 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 financial 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 1st 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 accumulated losses at 1st January, 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

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 the 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 1st 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 stand-alone prices.

<u>As a lessee - Leases previously classified as operating leases</u>

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for certain office premises and staff quarters. 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 two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) 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 1st January, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1st January, 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets and lease liabilities separately in the statement of financial position.

For the leasehold land and buildings (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 1st January, 2019. They continue to be measured at fair value applying HKAS 40.

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1st January, 2019 are as follows:

	Increase (Unaudited) HK$'M
Assets	
Right-of-use assets	2.4
Liabilities	
Lease liabilities	2.4

The lease liabilities as at 1st January, 2019 reconciled to the operating lease commitments as at 31st December, 2018 is as follows:

	(Unaudited) HK$'M
Operating lease commitments as at 31st December, 2018	2.7
Weighted average incremental borrowing rate as at 1st January, 2019	5.0%
Discounted operating lease commitments as at 1st January, 2019	2.5
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31st December, 2019	(0.1)
Lease liabilities as at 1st January, 2019	2.4

Disclosure of the changes in accounting policies is provided in the Group's Interim Financial Statements.

2. Operating Segment Information

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

(a) the property development and investment segment comprises the development and sale of properties and the leasing of properties; and

(b) the financial assets investments segment engages in trading of financial assets at fair value through profit or loss and other financial assets investments.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that certain interest income, finance costs, head office and corporate gains and expenses are excluded from such measurement.

The following table presents revenue and profit/(loss) information for the Group's operating segments:

	Property development and investment		Financial assets investments		Consolidated	
	Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,	
	2019	2018	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Segment revenue:						
Sales to external customers	44.3	2,023.8	4.6	3.8	48.9	2,027.6
Segment results before depreciation	(1.8)	478.3	(0.9)	(31.5)	(2.7)	446.8
Depreciation	(0.7)	(6.0)	-	-	(0.7)	(6.0)
Segment results	(2.5)	472.3	(0.9)	(31.5)	(3.4)	440.8
Unallocated interest income and unallocated non-operating and corporate gains					34.0	5.0
Unallocated non-operating and corporate expenses					(13.4)	(13.5)
Operating profit					17.2	432.3
Finance costs	(36.5)	(19.8)	-	-	(36.5)	(19.8)
Unallocated finance costs					(30.1)	(29.1)
Profit/(Loss) before tax					(49.4)	383.4
Income tax					(8.1)	(144.7)
Profit/(Loss) for the period before allocation between equity holders of the parent and non-controlling interests					(57.5)	238.7
Attributable to:						
Equity holders of the parent					(57.5)	238.7
Non-controlling interests					-	-
					(57.5)	238.7

3. Revenue and other income are analysed as follows:

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
<u>Revenue</u>		
Revenue from contracts with customers		
Proceeds from sale of properties	**42.8**	2,023.8
Revenue from other sources		
Rental income	**1.5**	–
Dividend income from listed investments	**4.6**	3.8
	48.9	2,027.6
<u>Other income</u>		
Bank interest income	**1.3**	5.0
Other interest income	**32.6**	–
Others	**0.3**	0.2
	34.2	5.2

4. An analysis of profit on sale of properties and depreciation of the Group is as follows:

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
Profit on disposal of properties	**17.5**	513.2
Depreciation of property, plant and equipment	**0.5**	6.2
Depreciation of right-of-use assets	**0.4**	–
	0.9	6.2

5. Finance costs of the Group are as follows:

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
Interest on convertible bonds	**30.1**	29.1
Interest on other borrowings	**32.0**	27.9
Interest expense arising from revenue contracts	**9.1**	14.9
	71.2	71.9
Less: Finance costs capitalised	**(4.6)**	(23.0)
	66.6	48.9

6. The income tax charge for the period arose as follows:

	Six months ended 30th June, 2019 (Unaudited) HK$'M	Six months ended 30th June, 2018 (Unaudited) HK$'M
Current – PRC		
Corporate income tax	**8.1**	64.7
Land appreciation tax	**0.5**	83.6
Deferred	**(0.5)**	(3.6)
Total tax charge for the period	**8.1**	144.7

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 period (2018 – Nil).

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate.

The PRC land appreciation tax is levied on the sale or transfer of state-owned land use rights, buildings and their attached facilities in Mainland China at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for the sale of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

No provision for tax was required for the joint venture as no assessable profits were earned by the joint venture during the period (2018 – Nil).

7. Dividend

No dividend was paid or proposed during the six months ended 30th June, 2019, nor has any dividend been proposed since the end of the reporting period (2018 – Nil).

8. (a) Basic earnings/(loss) per share

The calculation of basic loss per share for the period ended 30th June, 2019 is based on the loss for the period attributable to equity holders of the parent of HK$57.5 million (2018 – profit of HK$238.7 million) and on the weighted average of 6,759.4 million (2018 – 6,759.4 million) shares of the Company in issue during the six months ended 30th June, 2019 (including ordinary shares and convertible preference shares).

(b) Diluted earnings/(loss) per share

No adjustment has been made to the loss per share amount presented for the period ended 30th June, 2019 in respect of a dilution, as the impact of the convertible bonds issued during the period had an anti-dilutive effect on the loss per share amount presented.

The calculation of the diluted earnings per share for the period ended 30th June, 2018 was based on the profit for the period attributable to equity holders of the parent, adjusted to reflect the imputed interest on the convertible bonds of HK$29.1 million. The weighted average number of shares used in the calculation is the aggregate of the number of ordinary and convertible preference shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 2,678.6 million shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

9. Deposits, prepayments and other assets are analysed as follows:

	30th June, 2019 (Unaudited) HK$'M	31st December, 2018 (Audited) HK$'M
Non-current		
Prepayments (Note (a))	**92.0**	87.1
Investment deposits (Note (b))	**193.3**	193.6
Deposits	**0.1**	0.1
	285.4	280.8
Current		
Contract costs	**0.6**	0.8
Prepayments	**44.4**	30.0
Deposits	**0.3**	0.4
Other receivables	**58.5**	18.3
	103.8	49.5

Notes:

(a) The amount related to the costs incurred in relation to a re-forestation project in Urumqi, Xinjiang Uygur Autonomous Region, the PRC. In accordance with the prevailing relevant policies and regulations, upon the agreed completion (which has to be certified by the relevant government authorities) of re-forestation works in respect of that land, as well as the completion of the land listing and tender procedures in accordance with the relevant rules and regulations, the Group shall be either entitled to the land use right of 30% of the overall project area of such land for development purposes or reimbursed for the costs incurred in the re-forestation project.

In the prior years, the Group completed the milestones required by the relevant PRC government authorities and obtained affirmations to confirm the fulfillments of the conditions agreed with the relevant policies and regulations. Despite the delay in the progress of the re-forestation works, based on the latest legal opinion obtained, the legitimate interests of the Group in this re-forestation and land grant contract remain valid and effective and the Directors of the Company are of the opinion that costs incurred for the re-forestation works are fully recoverable in future in accordance with the applicable policies and regulations.

(b) The amount related to the deposits in an aggregate amount of RMB170 million (HK$193.3 million) (31st December, 2018 – RMB170 million (HK$193.6 million)) paid in relation to a possible investment by the Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC, further details of which are disclosed in note 10 below.

10. Loans receivable are analysed as follows:

	30th June, 2019	**31st December, 2018**
	(Unaudited)	**(Audited)**
	HK$'M	**HK$'M**
Short term secured loans	**170.6**	**170.8**

On 16th August, 2018, the Group entered into a deposit agreement (the "Deposit Agreement") in relation to the possible investment by the Group in a sizeable logistics services provider that is principally operating logistics and express delivery services and the development and operation of logistics parks in the PRC. Pursuant to the Deposit Agreement, the Group has paid a deposit of RMB70 million (HK$79.6 million) to the vendor and was granted an exclusivity period of 18 months to conduct bona fide negotiations to settle the terms of the possible investment. Following further negotiations with the vendor, the Group has agreed to increase the deposit under the Deposit Agreement from RMB70 million (HK$79.6 million) to RMB170 million

(HK$193.3 million). The Group also granted loan facilities to the target investee group in an aggregate loan amount of RMB150 million (HK$170.6 million) which were fully utilised as at 30th June, 2019 (31st December, 2018 – RMB150 million (HK$170.8 million)).

The short term secured loans bear interest at 18% to 24% per annum. The deposits and the loan amounts outstanding under the loan facilities are primarily secured by equity pledges over certain PRC companies associated with the vendor, guarantees provided by the vendor and certain of his associates, and pledges over the receivables of the target investee group and certain associates of the vendor.

The short term secured loans were overdue as at 30th June, 2019 and the negotiations with the vendor on the detailed terms of the proposed investment are still ongoing.

11. Other borrowings are analysed as follows:

	30th June, 2019	**31st December, 2018**
	(Unaudited)	**(Audited)**
	HK$'M	**HK$'M**
Non-current		
Other borrowings	**1,062.0**	1,062.0
Current		
Other borrowings	**221.5**	267.3

Other borrowings, comprising term loan of HK$1,062 million (31st December, 2018 – HK$1,062 million) and revolving loan of HK$221.5 million (31st December, 2018 – HK$267.3 million) from a fellow subsidiary, are secured by the pledge over the equity interests in the relevant holding companies of the Group's property development projects and bear interest at 5% per annum. The term loan is repayable on 12th October, 2021 and is classified as a non-current other borrowing. The revolving loan of HK$221.5 million (31st December, 2018 – HK$267.3 million) is classified as a short term borrowing.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2019.

REVIEW OF RESULTS

The Group's condensed consolidated financial statements for the six months ended 30th June, 2019 have not been audited, but have been reviewed by Ernst & Young, the Company's external auditors, whose review report is contained in the Company's interim report for the six months ended 30th June, 2019 to be despatched to shareholders.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30th June, 2019, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

CORPORATE GOVERNANCE

The Company has complied with the Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30th June, 2019, except that:

(1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals, due to practical necessity to cater to the Group's corporate operating structure.

(2) The Non-Executive Director and Independent Non-Executive Directors of the Company were not appointed for specific terms, but in accordance with the provisions of the Articles of Association of the Company, all Directors (including the Non-Executive Director and the Independent Non-Executive Directors) of the Company are subject to retirement by rotation at least once every three years, and the retiring Directors are eligible for re-election.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises the following members:

Executive Directors:
Mr. LO Yuk Sui
(Chairman and Chief Executive Officer)
Mr. Jimmy LO Chun To
(Vice Chairman and Managing Director)
Miss LO Po Man
(Vice Chairman)
Mr. Kenneth WONG Po Man
(Chief Operating Officer)
Mr. Kelvin LEUNG So Po
(Chief Financial Officer)
Mr. Kenneth NG Kwai Kai

Non-Executive Director:
Mr. Francis BONG Shu Ying

Independent Non-Executive Directors:
Ms. Alice KAN Lai Kuen
Mr. LEE Choy Sang
Mr. David LI Ka Fai
Hon Abraham SHEK Lai Him, GBS, JP

By Order of the Board
LO YUK SUI
Chairman

Hong Kong, 26th August, 2019