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萬城
MILLION CITIES

萬城控股有限公司
MILLION CITIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2892)

ANNOUNCEMENT OF UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

	Six months ended 30 June			
	2023	2022	Change	
	RMB'million	*RMB'million*	*RMB'million*	*%*
	(Unaudited)	(Unaudited)		
Revenue	**327.7**	82.0	245.7	299.7%
Gross profit	**125.2**	23.1	102.1	442.1%
Gross profit margin	**38.2%**	28.2%	N/A	+10.0p.p.
Profit attributable to the equity shareholders of the Company	**0.7**	39.8	−39.1	−98.2%
Earnings per share — Basic and diluted *(RMB cents)*	**0.1**	5.31	−5.21	−98.1%
Interim dividend per share *(RMB cents)*	**—**	—	—	N/A

The board (the "**Board**") of directors (the "**Directors**") of Million Cities Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2023 together with the comparative figures for 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2023
(Expressed in Renminbi)

	Note	Six months ended 30 June 2023 *RMB'000* (Unaudited)	Six months ended 30 June 2022 *RMB'000* (Unaudited)
Revenue	*4*	**327,663**	81,967
Cost of sales		**(202,467)**	(58,871)
Gross profit		**125,196**	23,096
Valuation gains on investment properties		**23,724**	—
Other net income	*5*	**4,187**	2,769
Selling expenses		**(32,924)**	(6,565)
Administrative expenses		**(21,370)**	(31,737)
Other expenses		**(842)**	(1,331)
Profit/(loss) from operations		**97,971**	(13,768)
Finance costs	*6(a)*	**(4,488)**	(531)
Share of profits less losses of associates		**(15,179)**	49,515
Profit before taxation	*6*	**78,304**	35,216
Income tax	*7*	**(66,243)**	(2,156)
Profit for the period		**12,061**	33,060
Attributable to:			
Equity shareholders of the Company		**730**	39,798
Non-controlling interests		**11,331**	(6,738)
Profit for the period		**12,061**	33,060
Basic and diluted earnings per share *(RMB cents)*	*8*	**0.10**	5.31

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023
(Expressed in Renminbi)

	Six months ended 30 June 2023	Six months ended 30 June 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**12,061**	33,060
Other comprehensive income for the period:		
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of:		
— the associates	**(2,286)**	(2,267)
— the Hong Kong and overseas subsidiaries	**(4,405)**	(5,469)
Other comprehensive income for the period, net of nil tax	**(6,691)**	(7,736)
Total comprehensive income for the period	**5,370**	25,324
Attributable to:		
Equity shareholders of the Company	**1,492**	41,761
Non-controlling interests	**3,878**	(16,437)
Total comprehensive income for the period	**5,370**	25,324

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023
(Expressed in Renminbi)

	Note	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**50,667**	51,588
Investment properties	*10*	**124,000**	86,200
Interest in associates		**430,703**	446,921
Deferred tax assets		**77,399**	81,418
Other non-current assets	*11*	**95,724**	98,820
		778,493	764,947
Current assets			
Inventories and other contract costs		**1,231,039**	1,455,589
Trade and other receivables	*12*	**135,673**	136,380
Prepaid tax		**29,900**	32,262
Pledged and restricted deposits		**20,804**	66,714
Cash and cash equivalents		**469,544**	205,561
		1,886,960	1,896,506
Non-current assets held for sale	*13*	**92,965**	92,965
		1,979,925	1,989,471
Total assets		**2,758,418**	2,754,418
Current liabilities			
Bank loans	*14*	**144,000**	158,400
Contract liabilities		**302,630**	66,307
Trade and other payables	*15*	**586,168**	781,928
Lease liabilities		**116**	162
Tax payable		**244,423**	276,081
		1,277,337	1,282,878
Net current assets		**702,588**	706,593
Total assets less current liabilities		**1,481,081**	1,471,540

	Note	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		**—**	48
Deferred tax liabilities		**15,672**	11,453
		15,672	11,501
NET ASSETS		**1,465,409**	1,460,039
CAPITAL AND RESERVES			
Share capital		**6,605**	6,605
Reserves		**1,162,340**	1,160,848
Total equity attributable to equity shareholders of the Company		**1,168,945**	1,167,453
Non-controlling interests		**296,464**	292,586
TOTAL EQUITY		**1,465,409**	1,460,039

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

This condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB'000") unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board on 28 August 2023.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This condensed consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of this condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The condensed consolidated interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

3 ACCOUNTING POLICIES

(a) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

None of the amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue

The principal activities of the Group are property development and sale in the People's Republic of China (the "PRC").

Disaggregation of revenue

Revenue mainly represents income from sale of properties and gross rentals from properties, net of sales related taxes and discounts allowed, and is analysed as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of properties:		
— Recognised at a point in time	**325,846**	67,662
— Recognised over time	**—**	12,715
	325,846	80,377
Revenue from other sources		
— Gross rentals from properties	**1,817**	1,590
	327,663	81,967

(b) Operating segment

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more focused on the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on property development. Resources are allocated based on what is beneficial for the Group in enhancing its property development activities as a whole rather than any specific service. Performance assessment is based on the results of the Group as a whole. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, *Operating segments*.

Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the properties were developed or leased out. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and investment properties, and the location of operations, in the case of interests in associates.

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 June		**At 30 June**	At 31 December
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Huizhou	**302,711**	44,742	**493,440**	495,906
Tianjin	**24,952**	37,225	**77,262**	58,319
Zhumadian	**—**	—	**129,948**	128,875
Others	**—**	—	**444**	429
	327,663	81,967	**701,094**	683,529

5. OTHER NET INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**3,755**	2,408
Others	**432**	361
	4,187	2,769

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**4,484**	7,987
Accrued interest on significant financing component of contract liabilities	**—**	5,763
Others	**4**	12
	4,488	13,762
Less: Interest expenses capitalised into inventories	**—**	(13,231)
	4,488	531

(b) Staff costs

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**17,206**	19,570
Contributions to defined contribution retirement plan	**534**	1,529
Equity-settled share-based payment expenses	**—**	156
Less: Staff costs capitalised into inventories	**(3,132)**	(7,380)
	14,608	13,875

(c) Other items

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation	**1,648**	2,768
Inventory write-down	**36,222**	—
Rentals receivable from investment properties	**(990)**	(410)

7. INCOME TAX

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Provision for Corporate Income Tax ("CIT")	**17,803**	2,354
Provision for Land Appreciation Tax ("LAT")	**40,202**	2,719
	58,005	5,073
Deferred tax		
Origination and reversal of temporary differences	**8,238**	(2,917)
	66,243	2,156

(i) CIT and Hong Kong Profits Tax

The provision for CIT is based on the estimated taxable income at the rates applicable to each subsidiary in the Group. The income tax rate applicable to the principal subsidiaries in the Mainland China is 25% during the six months ended 30 June 2023 (six months ended 30 June 2022: 25%).

No provision for Hong Kong Profits Tax was recognised for the six months ended 30 June 2023 (six months ended 30 June 2022: nil) as the subsidiaries in Hong Kong did not have any assessable profits for the period.

(ii) LAT

LAT is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and relevant property development expenditures.

(iii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB730,000 (six months ended 30 June 2022: RMB39,798,000) and the weighted average number of 750,000,000 ordinary shares (six months ended 30 June 2022: 750,000,000 ordinary shares) in issue during the six months ended 30 June 2023.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2023 and 2022 were the same as the basic earnings per share as the share options granted were anti-dilutive.

9. DIVIDENDS

On 28 August 2023, the Board resolved not to pay an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10. INVESTMENT PROPERTIES

The Group's investment properties were revalued at fair value as at 30 June 2023 by Vincorn Consulting and Appraisal Limited, an independent valuer who has relevant professional qualification and recent experience in the location and category of properties being valued. The same valuation techniques were used by this valuer when carrying out the valuation as at 31 December 2022. The Group's management have discussion with the valuers on the valuation assumptions and valuation results twice a year for financial reporting.

During the six months ended 30 June 2023, inventories with carrying amount of RMB14,076,000 were transferred to investment properties, and a fair value gain of RMB23,724,000 upon the transfer with the total corresponding deferred tax of RMB5,931,000 had been recognised in profit or loss. There is no such transfer for the period ended 30 June 2022.

11. OTHER NON-CURRENT ASSETS

On 5 May 2022, the Group, Mr. Wong Ting Chung, the chairman and executive director of the Company, and a third party (the "Borrower") entered into a loan agreement, pursuant to which, the Group grants a loan of RMB96,500,000 to the Borrower for a term of 3 years with an interest rate of 4% per annum, and Mr. Wong Ting Chung provides a personal guarantee to the Borrower in favour of the Group. The Borrower shall repay the whole principal amount together with all accrued interest due and payable to the Group on 4 May 2025, or repay part of the principal amount together with all accrued interest due throughout the term of the loan by instalments, or on demand by the Group. For further details, please refer to the announcement of the Company dated 5 May 2022.

Up to 30 June 2023, the Group has accumulated accrued interest income of RMB4,224,000 (31 December 2022: RMB2,320,000) in respect of the loan.

12. TRADE AND OTHER RECEIVABLES

As at 30 June 2023, the ageing analysis of trade debtors (which are included in trade and other receivables), and net of loss allowance, is as follows:

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Within 1 month	**—**	1
1 to 3 months	**1**	1
3 to 6 months	**2**	2
Over 6 months	**311**	310
Trade debtors, net of loss allowance	**314**	314
Amounts due from associates *(Note (i))*	**18,009**	18,054
Amounts due from non-controlling interests *(Note (i))*	**24,565**	24,565
Other debtors	**52,891**	63,961
Financial assets measured at amortised cost	**95,779**	106,894
Deposits	**4,553**	2,518
Prepayments *(Note (ii))*	**35,341**	26,968
	135,673	136,380

As of 30 June 2023, no trade debts were past due (31 December 2022: nil). Based on experience, management believes that no loss allowance is necessary in respect of the trade debtors as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

(i) The amounts due from associates and non-controlling interests were interest-free, unsecured and are expected to be recovered within one year.

(ii) The amounts mainly represented prepaid value added tax and other sales related taxes.

13. NON-CURRENT ASSETS HELD FOR SALE

In 2020, Lucky Win Limited (an indirect wholly-owned subsidiary of the Company), Access Prosper International Limited (the "JV Partner") and Mr. Chan Cheung Tim (each an Independent Third Party) (collectively, the "Parties") entered into a cooperation agreement (the "Cooperation Agreement"), pursuant to which the Group and the JV Partner invested in 30% and 70% of the issued share capital of Star Linkage Financial Holdings Limited ("Star Linkage") respectively. Star Linkage together with its subsidiaries ("Star Linkage Group") were treated as associates of the Group (the "Associates"). The Group has paid a capital loan of RMB93,000,000 to the Associates in 2020.

On 30 December 2021, the Parties entered into a termination agreement (the "Termination Agreement"), pursuant to which the Parties agreed to terminate the Cooperation Agreement by way of the JV Partner acquiring 30% of the issued share capital of Star Linkage from the Group, at a consideration of approximately RMB100,338,000 (the "Consideration"), being the sum of capital loan made by the Group in an amount of RMB93,000,000 plus an interest amount approximately of RMB7,338,000, being accrued at an interest rate of 4% per annum from 10 January 2020 to 30 December 2021. The Consideration shall be paid to the Group within 120 days upon signing of the Termination Agreement. This constituted a forward contract.

Upon signing of the Termination Agreement, the Cooperation Agreement was terminated and the Group was released from its capital contribution obligations and all other obligations and commitments under the Cooperation Agreement. For further details, please refer to the announcement of the Company dated 30 December 2021.

The Group reclassified the interests in Star Linkage Group to non-current assets held for sale accordingly and recognised at the lower of the carrying amount and fair value less costs to sell. The forward contract was accounted for at fair value.

On 30 June 2022, the Parties entered into a supplemental agreement to the Termination Agreement, pursuant to which the Parties agreed to amend the payment terms of the Consideration whereby the balance of the Consideration, together with interest payable on the outstanding Consideration calculated at 4% per annum, shall be paid to the Group of RMB5,000,000 per month, with the last payment being settled no later than 28 December 2023. Legal title of the equity interests and the corresponding rights in Star Linkage will only be transferred to the JV Partner upon full settlement of the Consideration and the corresponding interests. For further details, please refer to the announcement of the Company dated 30 June 2022.

As at 30 June 2023, payments made by the JV Partner to the Group amounted to RMB54,000,000.

14. BANK LOANS

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
— Secured	**144,000**	158,400

The secured bank loans with amount of approximately RMB144,000,000 as at 30 June 2023 and RMB158,400,000 as at 31 December 2022 were secured by assets below:

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Inventories	**354,730**	381,084

The Group's banking facilities are subject to the fulfilment of certain covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. There was no breach of covenants as of 30 June 2023 (31 December 2022: nil).

At 30 June 2023, bank loans were repayable as follows according to the repayment schedules as set out in the loan agreements:

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Within 1 year	**144,000**	38,400
After 1 year but within 2 years	**—**	120,000
	144,000	158,400

Notwithstanding the specified repayment schedules as stated in all facilities letters which allow the loans to be repaid over a period of more than one year, all banking facilities granted to the Group include a clause that gives the bank an unconditional right to call the bank loans at any time (the "repayment on demand clause").

15. TRADE AND OTHER PAYABLES

As at 30 June 2023, the ageing analysis of trade creditors (which are included in trade and other payables), based on the date of the trade payables recognised, is as follows:

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**40,122**	170,711
3 to 6 months	**1,117**	2,171
6 to 12 months	**20,821**	653
Over 12 months	**29,838**	29,475
Trade creditors	**91,898**	203,010
Other payables and accruals	**67,223**	62,414
Amounts due to related parties *(note (i))*	**372,440**	460,975
Financial liabilities measured at amortised cost	**531,561**	726,399
Financial guarantee issued *(note (ii))*	**607**	1,529
Derivative financial instruments *(note 13)*	**54,000**	54,000
	586,168	781,928

Note:

(i) Amounts due to related parties are interest-free, unsecured and repayable on demand or expected to be repayable within one year.

(ii) On 17 March 2021, Huizhou Logan Junhong Real Estate Limited ("Logan Junhong"), the associate of the Group, entered into a loan agreement ("Loan Agreement") with total banking facility amounted to RMB420,000,000 which was 100% guaranteed by Logan Group Company Limited ("Logan Group"). On 10 May 2021, the Group and Logan Group, entered into a counter-guarantee agreement ("Counter-guarantee") pursuant to which the Group has agreed, subject to the terms and conditions contained therein to provide a counter-guarantee to Logan Group with regard to the Loan Agreement in proportion to the Group's respective equity interest in Logan Junhong (30%). As at 30 June 2023, the total bank loan secured by the Counter-guarantee attributable to the Group was RMB56,100,000 (31 December 2022: RMB84,000,000). Deferred income in respect of the financial guarantees issued was RMB607,000 (31 December 2022: RMB1,529,000).

For further details, please refer to announcement of the Company dated 10 May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2023, as pandemic prevention measures were relaxed, there was a gradual rebound in economy. However, persistent global inflation and a sustained high-interest rate environment have impacted both consumer and business confidence. Moreover, the risks associated with geopolitical tensions and trade conflicts have casted a shadow over the macro-economic prospects. Nevertheless, the central government continued to implement steadfast fiscal and monetary policies to facilitate high-quality development, boost domestic demand, stabilise economic recovery and stimulate economic growth. As a result, the gross domestic product of the PRC experienced a healthy growth rate by approximately 5.5% year-on-year in the first half of 2023 when compared with that of the corresponding period of the previous year.

The real estate market nationwide has faced significant challenges caused by liquidity risks and diminishing demand. This has led to a sharp downturn in commercial housing sales, eroding confidence in future market development of the real estate sector. According to the data released by the National Bureau of Statistics of the PRC, in the first half of 2023, the total sales area of commercial housing amounted to approximately 595 million square meters ("**sq.m.**"), representing a decrease of approximately 13.6% as compared with that of the corresponding period of the previous year. In terms of monetary value, the sales volume of commercial housing decreased by approximately 4.5% to approximately RMB6.31 trillion, as compared with that of the corresponding period of the previous year. Besides, the total investment in the real estate sector in the first half of 2023 amounted to approximately RMB5.85 trillion, representing a year-on-year decrease of approximately 14.3%. The data illustrated that the sales and investment performance of real estate market were weakened.

Despite the shrinking demand and limited profitability, the Group remains confident in the intrinsic value and pivotal role of the real estate sector within the national economy. With the industry's increasing risk awareness and its trajectory alignment with national policy directions, the Group anticipates a foundational recovery and resurgence in the real estate market in the foreseeable future.

BUSINESS REVIEW

Given the challenging market environment, the Group has maintained a cautious financial policy and low-leverage approach in operations. The Group focused on improving turnover and liquidity to ensure financial soundness and promote efficient operation.

In the first half of 2023, the Group recorded a revenue of approximately RMB327.7 million, which was mainly contributed by Million Cities Legend Phase 3 (萬城名座三期) in Huizhou, and was significantly higher than that of the corresponding period of the previous year, which was mainly contributed from the sale of Million Cities Tycoon Place Phase 3 (萬城聚豪三期) in Tianjin. However, taking account into the impairment allowance provided for the unsold apartments and parking spaces of associates companies during the first half of 2023, the Group recorded a loss in share of profits less losses of associates of approximately RMB15.2 million for the first half of 2023, as compared with recorded a profit in share of profits less losses of approximately RMB49.5 million for the corresponding period of the previous year, which was contributed by the income from Dragon Terrace Phase 2 (玖龍台二期) in Huizhou upon its completion and delivery. In the first half of 2023, the net profit attributable to equity shareholders of the Company amounted to approximately RMB0.7 million, representing a year-on-year decrease of approximately 98.2%. For the first half of 2023, the Group achieved an aggregated contracted sales value of approximately RMB661 million with a total gross floor area ("**GFA**") of approximately 46,100 sq.m., which was mainly attributable to the sale of Million Cities Legend Phase 3 (萬城名座三期) and the Jade Terrace Phases 1 and 2 (玖璟台一、二期) in Huizhou, as well as Dragon Palace Sections 4 and 5 (聚龍灣二期第四、五標段) in Henan.

BUSINESS OUTLOOK

At the meeting of the Political Bureau of the Central Committee of the Communist Party of China in July 2023, there was a clear indication of an optimistic outlook for economic growth in the second half of the year, initiatives were also proposed, such as stimulating the capital market and refining real estate policies, in a timely manner. Subsequently, the Ministry of Housing and Urban-Rural Development also introduced different measures which are favourable to the real estate market, including mortgage granted to homebuyers could be based on the number of houses they own rather than on their previous mortgage loan record (認房不認貸) for the first home loan. Moreover, purchase limits and property ownership rules on real estate have been progressively relaxed in lower-tier cities. Therefore, the Group anticipates that, buoyed by a supportive policy framework, the real estate industry will transit towards a healthier and more sustainable growth model and will experience a steady revival.

In addition, the Group will continue to identify and explore investment opportunities, including certain sustainable development projects, so as to create long-term value to the shareholders and investors of the Company.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly represented income from sale of properties and gross rentals from properties earned during the six months ended 30 June 2023, net of sales related taxes and discounts allowed. Revenue from sale of properties has constituted, and is expected to continue to constitute, a majority of the Group's total revenue.

Property development

(i) Contracted sales

Total properties contracted sales (based on GFA of sales consent), including sale of properties by the associates of the Group, amounted to approximately RMB661.4 million, representing a GFA of approximately 46,100 sq.m. sold during the six months ended 30 June 2023.

(ii) Land bank

As at 30 June 2023, the total GFA of the Group's land bank was about 1,549,319 sq.m., out of which (i) about 449,192 sq.m. of GFA was unsold completed properties projects; (ii) about 83,373 sq.m. of GFA was unsold and under construction; and (iii) about 1,016,754 sq.m. of GFA was reserved for future development.

Revenue

Revenue from sale of properties for the six months ended 30 June 2023 amounted to approximately RMB325.8 million, as compared with approximately RMB80.4 million reported for the six months ended 30 June 2022, representing an increase by approximately 305.4%. Revenue recognised for the six months ended 30 June 2023 was mainly contributed by Million Cities Legend Phase 3 (萬城名座三期) in Huizhou which was significantly higher than that for the six months ended 30 June 2022, which was mainly contributed from the sale of Million Cities Tycoon Place Phase 3 (萬城聚豪三期) in Tianjin that generated lower gross profit margin.

Rental income

Gross rental income from investment properties and inventories for the six months ended 30 June 2023 was approximately RMB1.8 million, as compared with approximately RMB1.6 million reported for the six months ended 30 June 2022, representing an increase by 14.3%. The increase in gross rental income was mainly due to the increase in rental income from the carparks and investment properties for the six months ended 30 June 2023.

Cost of sales

Cost of sales for the six months ended 30 June 2023 was approximately RMB202.5 million, as compared with approximately RMB58.9 million reported for the six months ended 30 June 2022, representing an increase by approximately 243.9%. The increase in cost of sales was mainly due to (i) the increase in revenue from sale of properties; and (ii) certain inventories were written down for the six months ended 30 June 2023, whereas no inventories were written down for the six months ended 30 June 2022.

Gross profit and gross profit margin

The gross profit for the six months ended 30 June 2023 was approximately RMB125.2 million, representing an increase by approximately 442.1%, as compared with the same period last year of approximately RMB23.1 million. The increase in gross profit was mainly due to increase of revenue.

The gross profit margin for the six months ended 30 June 2023 was increased to approximately 38.2% (six months ended 30 June 2022：28.2%). The increase was mainly due to higher gross profit margin achieved by the Huizhou projects i.e. Million Cities Legend Phase 3, as compared with the project in Tianjin i.e. Million Cities Tycoon Place Phase 3, attributable to different sales and costs structures in different locations.

Valuation gains on investment properties

The Group recorded valuation gains for the six months ended 30 June 2023 of approximately RMB23.7 million (six months ended 30 June 2022: nil). This was mainly attributable to the increase in number of additional commercial shops located in HuiYang and Tianjin held by the Group for leasing purpose.

Other net income

Other net income for the six months ended 30 June 2023 was approximately RMB4.2 million, as compared with approximately RMB2.8 million for the six months ended 30 June 2022, representing an increase by approximately 51.2%, which was mainly due to the increase in interest income during the six months ended 30 June 2023.

Selling expenses

Selling expenses for the six months ended 30 June 2023 were approximately RMB32.9 million, as compared with approximately RMB6.6 million reported for the six months ended 30 June 2022, representing an increase by approximately 401.5%. The increase in selling expenses was mainly due to the increase in sales commission and the advertising fee for Million Cities Legend Phase 3.

Administrative expenses

Administrative expenses for the six months ended 30 June 2023 were approximately RMB21.4 million, as compared with approximately RMB31.7 million reported for the six months ended 30 June 2022, representing a decrease by approximately 32.7%. The decrease in administrative expenses was mainly due to (i) the cancellation of one of the projects, so no related costs had been incurred for such project during the six months ended 30 June 2023; (ii) reduction in professional fee; and (iii) reduction in entertainment expenses.

Share of profits less losses of associates

Share of profits less losses of associates recorded a loss of approximately RMB15.2 million for the six months ended 30 June 2023, against a profit of approximately RMB49.5 million for the six months ended 30 June 2022. This was mainly due to (i) the gross profit from the sale of Dragon Palace Phase 1 Section 3 in Henan Province and Jade Terrace in Huizhou was lower than that from the sale of Dragon Terrace Phase 2 in Huizhou in the same period last year; and (ii) certain inventories were written down for the six months ended 30 June 2023, whereas no inventories were written down for the six months ended 30 June 2022.

Finance costs

Finance costs for the six months ended 30 June 2023 were approximately RMB4.5 million, as compared with approximately RMB0.5 million for the six months ended 30 June 2022, representing an increase by approximately 745.2% due to completion of Legend Plaza in Tianjin, where the finance cost was recognised as expenses instead of capitalised into inventories.

Income tax

For the six months ended 30 June 2023, income tax was approximately RMB66.2 million, representing an increase of approximately RMB64.1 million, as compared with income tax of approximately RMB2.2 million for the six months ended 30 June 2022, as a result of the increase in profit from operations and the increase in the provision for land appreciation tax.

Profit for the period attributable to equity shareholders of the Company

Profit for the period attributable to equity shareholders of the Company for the six months ended 30 June 2023 was approximately RMB0.7 million, representing a decrease of approximately RMB39.1 million or approximately 98.2%, as compared with that of the six months ended 30 June 2022. Such decrease was mainly due to (i) loss recorded in the profits less losses of associates; and (ii) certain inventories were written down for the six months ended 30 June 2023, whereas no inventories were written down for the same period last year which mentioned as above.

OTHER FINANCIAL INFORMATION

Liquidity and financial resources

For the six months ended 30 June 2023, the Group's cash and cash equivalents were mainly used in the Group's business operations, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of cash generated from operating activities and borrowings. The Group's gearing ratio as at 30 June 2023 and 31 December 2022 was approximately 9.8% and 10.9%, respectively. The gearing ratio is calculated as interest bearing bank loans divided by equity. As at 30 June 2023, the Group's cash and cash equivalents, amounting to approximately RMB469.5 million, were denominated in HK$(7.0%) and RMB(93.0%). As at 30 June 2023, the Group's bank loans were due for repayment as follows:

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**144,000**	38,400
After one year but within two years	**—**	120,000
	144,000	158,400

Notes:

(a) The above amounts due are based on the scheduled repayment dates set out in the relevant agreements and ignore the effect of any repayment on demand clause.

(b) As at 30 June 2023, the Group's borrowings were denominated in RMB. The bank loans are interest-bearing at one-year Loan Prime Rate ("**LPR**") published by the People's Bank of China plus 1.95% per annum (31 December 2022：one-year LPR plus1.95% per annum).

(c) As at 30 June 2023, the Group's certain borrowings were secured by inventories with a total carrying amount of approximately RMB354.7 million (31 December 2022：RMB381.1 million).

Financial risk management objectives and policies

The Group's management has adopted certain policies on financial risk management with the objectives of: (i) ensuring appropriate funding strategies being adopted to meet the Group's short term and long term funding requirements after taking into consideration of the cost of funding, gearing ratios and cash flow projections of the Group; and (ii) ensuring appropriate strategies also being adopted to minimise the interest rate risk, credit risk and liquidity risk.

Foreign currency risk

The Group mainly operates in Hong Kong and the Mainland China with majority of the transactions settled in Hong Kong dollars ("**HK$**") and RMB. Foreign currency risk arises when future business transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Directors consider the Group's foreign currency risk exposure is minimal since all of the sales, assets and liabilities are denominated in RMB and only a small portion of operating expenses are denominated in HK$.

Interest rate risk

The Group's interest rate risk arises primarily from borrowings and cash at bank. Borrowings and cash at bank issued at variable rates expose the Group to cash flow interest rate risk, and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against interest rate risk for the six months ended 30 June 2023, but the Board will continue monitoring the Group's loan portfolio closely in order to manage the Group's interest rate risk exposure.

Credit risk

As of 30 June 2023, no material trade debtors of the Group were past due. The Group normally receives full payment from buyers before the delivery of the property. For mortgage sales without full settlement, the Group would not deliver the property to the customers unless it obtains confirmation from the banks providing mortgage that the respective mortgages have been approved. In addition, the Group would not transfer titles of the properties to customers until full amount of sales proceeds are received. Accordingly, the Group is of the view that the expected irrecoverable trade debtors were immaterial. Thus, no bad debt provision for trade debtors was recognised during the six months ended 30 June 2023. As at 30 June 2023, all the Group's bank balances and deposits were held with major financial institutions in Hong Kong and the Mainland China which the Directors believe are of high credit quality. The Directors do not expect any losses arising from the non-performance by these financial institutions.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms. The Group has not experienced and does not expect to experience any difficulties in meeting credit obligations when they fall due.

Capital expenditures

During the six months ended 30 June 2023, electronic and other equipment of RMB814,000 were acquired (six months ended 30 June 2022：Nil).

Capital commitments

The Group's capital commitments as at 30 June 2023 amounted to approximately RMB4.8 million (31 December 2022：RMB4.6 million) which were mainly related to development costs for the Group's properties under development.

Charge on assets

As at 30 June 2023, the Group's inventories with a total carrying amount of approximately RMB354.7 million (31 December 2022：RMB381.1 million) were pledged to banks to secure certain banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2023, the Group issued guarantees to banks to secure the mortgage arrangements of certain property buyers. The outstanding guarantees to the banks, amounted to approximately RMB248.6 million as at 30 June 2023 (31 December 2022: RMB597.7 million), will be terminated upon completion of transferring the legal title of the properties to the property buyers. The Directors consider loss arising from these guarantees as a result of default payment by customers to be insignificant, as the banks have the rights to sell the properties and recover the outstanding loan balance from sale proceeds. The Group has not recognised any deferred income in respect of these guarantees as their fair values are considered to be insignificant.

Operating segment information

The Group's revenue and results for the six months ended 30 June 2023 were mainly derived from property development. Performance assessment is based on the results of the Group as a whole. Therefore, management of the Group considers there is only one operating segment.

Events after balance sheet date

The Group had no significant events after balance sheet date.

HUMAN RESOURCES

Human resources and emolument policy

As at 30 June 2023, the Group had a total of 98 (31 December 2022: 130) full-time employees in the Mainland China and Hong Kong. For the six months ended 30 June 2023, the total staff costs, including the directors' emoluments, amounted to approximately RMB17.7 million (six months ended 30 June 2022: RMB21.3 million), of which approximately RMB3.1 million (six months ended 30 June 2022: RMB7.4 million) were capitalised into inventories.

The Group's emolument policies are formulated based on the performance and experience of individual employee and are in line with the salary trends in Hong Kong and the Mainland China. Other employee benefits include performance-linked bonuses, insurance and medical coverage and share options.

Since human resources management is an important factor in maintaining and enhancing the Group's strong expertise in the property development, the Group will provide appropriate training programs to the employees as the Group sees fit. From time to time, different on-the-job training will be provided to employees in order to ensure continuous staff development and skills upgrading.

Remuneration policy of Directors and senior management

The Directors and senior management of the Group receive compensation in the form of salaries and discretionary bonuses related to the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The remuneration committee will regularly review and determine the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of the Group.

INTERIM DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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

For the six months ended 30 June 2023, neither the Company nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

As the Company believes that good corporate governance can create value for its shareholders, the Board is committed to maintain a high standard of corporate governance practices by placing strong emphasis on a quality Board, sound internal controls and effective accountability to the shareholders as a whole. The Company has adopted the code provisions in Corporate Governance Code and Corporate Governance Report ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. In the opinion of the Directors, the Company has complied with all the mandatory code provisions set out in the CG Code for the six months ended 30 June 2023.

The Board will continue to enhance its corporate governance practices to ensure that it complies with the CG Code and aligns with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by the Directors.

All Directors have confirmed, following specific enquiries made by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2023.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code. Each of the relevant employees has been given a copy of the written guidelines.

No incident of non-compliance with these guidelines by the relevant employees has been notified to the Company for the six months ended 30 June 2023.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive Directors, namely, Mr. Li Yinquan (chairman of the audit committee who possesses appropriate professional qualification or accounting or related financial management expertise), Mr. Ip Shu Kwan, Stephen, and Mr. Chan Hiu Fung, Nicholas. The written terms of reference of audit committee have been made available on the Company's website at www.millioncities.com.cn and on the website of the Stock Exchange.

The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, to oversee the audit process, to develop and review the policies and to perform other duties and responsibilities as assigned by the Board. The audit committee has reviewed with the external auditor the interim financial report of the Group for the six months ended 30 June 2023.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and the Company's website at http://www.millioncities.com.cn. The interim report for the six months ended 30 June 2023 will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Million Cities Holdings Limited
Wong Ting Chung
Chairman and executive Director

Hong Kong, 28 August 2023

As at the date of this announcement, the chairman and executive Director is Mr. Wong Ting Chung; the executive Directors are Mr. Lau Ka Keung and Mr. Li Wa Tat, Benedict; and the independent non-executive Directors are Mr. Ip Shu Kwan, Stephen, Mr. Li Yinquan and Mr. Chan Hiu Fung, Nicholas.