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SUNCITY GROUP HOLDINGS LIMITED

太陽城集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

FOR THE SIX MONTHS ENDED 30 JUNE 2019 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Total revenue decreased by 32.7% to RMB307,043,000 (six months ended 30 June 2018: RMB456,024,000)
- Gross profit decreased by 70.8% to RMB51,636,000 (six months ended 30 June 2018: RMB176,859,000)
- Loss for the period attributable to owners of the Company of RMB1,254,190,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: loss for the period attributable to owners of the Company of RMB1,648,052,000)
- Basic loss per share of RMB18.81 cents for the six months ended 30 June 2019 (six months ended 30 June 2018: Basic loss per share of RMB27.12 cents)

The board (the “**Board**”) of directors (the “**Directors**”) of Suncity Group Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the audit committee of the Company and the independent auditor of the Company, Deloitte Touche Tohmatsu:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue			
– Contracts with customers		286,486	433,003
– Rental income		20,557	23,021
		<hr/>	<hr/>
Total revenue	2	307,043	456,024
Cost of sales		(255,407)	(279,165)
		<hr/>	<hr/>
Gross profit		51,636	176,859
Other income, gains and losses	3	(39,415)	(62,145)
Selling and distribution expenses		(3,187)	(2,850)
Administrative expenses		(46,826)	(53,881)
Other operating expenses		(1,784)	(8,381)
Change in fair value of investment properties	9	(56,800)	–
Change in fair value of financial assets at fair value through profit or loss	10(a)	20,681	–
Gain on disposal of subsidiaries		9,245	–
Change in fair value of derivative financial instruments	14	(1,073,871)	(1,572,625)
Reversal of provisions for potential claims		–	19,368
Share of profit (loss) of associates		399	(593)
Share of loss of a joint venture		(28,068)	–
Finance costs	4	(93,707)	(60,970)
		<hr/>	<hr/>
Loss before taxation		(1,261,697)	(1,565,218)
Income tax credit (expense)	5	7,331	(83,059)
		<hr/>	<hr/>
Loss for the period	6	(1,254,366)	(1,648,277)
		<hr/>	<hr/>
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		20,643	335
Share of other comprehensive expense of a joint venture, net of related income tax		(2,598)	–
		<hr/>	<hr/>
		18,045	335
		<hr/>	<hr/>
Total comprehensive expense for the period		(1,236,321)	(1,647,942)
		<hr/> <hr/>	<hr/> <hr/>

		Six months ended 30 June	
		2019	2018
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss for the period attributable to:			
– Owners of the Company		(1,254,190)	(1,648,052)
– Non-controlling interests		<u>(176)</u>	<u>(225)</u>
		<u>(1,254,366)</u>	<u>(1,648,277)</u>
Total comprehensive expense for the period attributable to:			
– Owners of the Company		(1,236,176)	(1,647,717)
– Non-controlling interests		<u>(145)</u>	<u>(225)</u>
		<u>(1,236,321)</u>	<u>(1,647,942)</u>
Loss per share:			
– Basic (<i>RMB cents</i>)	8	<u>(18.81)</u>	<u>(27.12)</u>
– Diluted (<i>RMB cents</i>)	8	<u>(18.81)</u>	<u>(27.12)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment		2,761	2,387
Right-of-use assets		2,954	–
Investment properties	9	1,657,400	1,714,200
Prepayment and deposits for non-current assets		28,219	21,282
Pledged bank deposits		7,150	7,068
Interests in associates	10(a)	735,352	741
Interest in a joint venture	10(b)	767,592	797,389
Deferred tax assets		83,419	83,597
		3,284,847	2,626,664
Current assets			
Inventories		596,470	608,211
Trade and other receivables and prepayments	11	66,018	78,662
Amounts due from directors		250	368
Financial assets at fair value through profit or loss		–	44,934
Pledged bank deposits		303	303
Restricted bank deposits		2,301	3,068
Bank balances and cash		87,037	92,668
		752,379	828,214
Current liabilities			
Trade and other payables	12	214,368	268,654
Amounts due to related companies		47,135	52,103
Contract liabilities		129,310	148,144
Receipt in advance		903	989
Rent and other deposits		7,108	7,448
Lease liabilities		1,001	–
Provisions for potential claims		22,564	22,564
Bank and other borrowings	13	290,752	243,252
Derivative financial instruments	14	2,679,143	1,578,882
Current tax liabilities		389,500	476,953
		3,781,784	2,798,989
Net current liabilities		(3,029,405)	(1,970,775)
Total assets less current liabilities		255,442	655,889

		30 June 2019	31 December 2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current liabilities			
Bank and other borrowings	<i>13</i>	520,500	442,000
Interest payables		5,959	–
Lease liabilities		1,832	–
Amount due to a related company		252,627	229,000
Amount due to a director		4,912	4,893
Loans from a related company		525,515	164,463
Convertible bonds	<i>14</i>	544,004	515,120
Deferred tax liabilities		347,269	359,413
		<u>2,202,618</u>	<u>1,714,889</u>
Net liabilities		<u>(1,947,176)</u>	<u>(1,059,000)</u>
Capital and reserves			
Share capital		582,811	582,811
Reserves		<u>(2,532,418)</u>	<u>(1,630,682)</u>
Deficit attributable to owners of the Company		(1,949,607)	(1,047,871)
Non-controlling interests		<u>2,431</u>	<u>(11,129)</u>
Total deficit		<u>(1,947,176)</u>	<u>(1,059,000)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, financial assets at fair value through profit or loss and derivative financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

During the six months ended 30 June 2019, the Group has applied, for the first time, the following new and amendments to HKFRSs and Hong Kong Accounting Standards ("**HKASs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately RMB3,658,000 and right-of-use assets of approximately RMB3,658,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 14.02%.

2. REVENUE AND SEGMENT INFORMATION

Segment Information

Information reported to the Executive Directors of the Company, being the chief operating decision maker (“CODM”) for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s operating and reportable segments are as follows:

- (1) Property development – Development and sales of office premises, residential and retail properties in the People’s Republic of China (the “PRC”);
- (2) Property leasing – Leasing of retail and residential properties and provision of property management services in the PRC;
- (3) Hotel and integrated resort general consultancy services – Provision of hotel and integrated resort general consultancy services; and
- (4) Travel related products and services – Sales of travel related products and provision of travel agency services.

Disaggregation of revenue

Segment	Six months ended 30 June 2019 (Unaudited)				
	Property development RMB’000	Property leasing RMB’000	Hotel and integrated resort general consultancy services RMB’000	Travel related products and services RMB’000	Total RMB’000
Types of goods or services					
Sales of properties					
– Apartments	18,901	–	–	–	18,901
Sales of travel related products					
– Hotel accommodation products	–	–	–	254,780	254,780
– Others	–	–	–	77	77
Travel agency services income	–	–	–	2,819	2,819
Property management services income	–	2,829	–	–	2,829
Hotel and integrated resort general consultancy services income	–	–	7,080	–	7,080
	18,901	2,829	7,080	257,676	286,486
Rental income	–	20,557	–	–	20,557
Total	<u>18,901</u>	<u>23,386</u>	<u>7,080</u>	<u>257,676</u>	<u>307,043</u>

Segment	Six months ended 30 June 2018 (Unaudited)				
	Property development <i>RMB'000</i>	Property leasing <i>RMB'000</i>	Hotel and integrated resort general consultancy services <i>RMB'000</i>	Travel related products and services <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services					
Sales of properties					
– Apartments	49,456	–	–	–	49,456
– Villas	120,179	–	–	–	120,179
Sales of travel related products					
– Hotel accommodation products	–	–	–	247,565	247,565
– Others	–	–	–	150	150
Travel agency services income	–	–	–	3,100	3,100
Property management services income	–	4,059	–	–	4,059
Hotel and integrated resort general consultancy services income	–	–	8,494	–	8,494
	169,635	4,059	8,494	250,815	433,003
Rental income	–	23,021	–	–	23,021
Total	<u>169,635</u>	<u>27,080</u>	<u>8,494</u>	<u>250,815</u>	<u>456,024</u>

Geographical Information

Six months ended 30 June 2019 (Unaudited)

	Property development <i>RMB'000</i>	Property leasing <i>RMB'000</i>	Hotel and integrated resort general consultancy services <i>RMB'000</i>	Travel related products and services <i>RMB'000</i>	Total <i>RMB'000</i>
Geographical markets by customers' locations					
The PRC	18,901	2,829	–	–	21,730
Macau	–	–	–	244,135	244,135
Cambodia	–	–	1,686	–	1,686
Vietnam	–	–	5,394	13,541	18,935
	<u>18,901</u>	<u>2,829</u>	<u>7,080</u>	<u>257,676</u>	<u>286,486</u>
Rental income	<u>–</u>	<u>20,557</u>	<u>–</u>	<u>–</u>	<u>20,557</u>
Total	<u><u>18,901</u></u>	<u><u>23,386</u></u>	<u><u>7,080</u></u>	<u><u>257,676</u></u>	<u><u>307,043</u></u>
Timing of revenue recognition					
A point in time	18,901	–	–	2,819	21,720
Over time	–	2,829	7,080	254,857	264,766
	<u>18,901</u>	<u>2,829</u>	<u>7,080</u>	<u>257,676</u>	<u>286,486</u>
Rental income	<u>–</u>	<u>20,557</u>	<u>–</u>	<u>–</u>	<u>20,557</u>
Total	<u><u>18,901</u></u>	<u><u>23,386</u></u>	<u><u>7,080</u></u>	<u><u>257,676</u></u>	<u><u>307,043</u></u>

Six months ended 30 June 2018 (Unaudited)

	Property development <i>RMB'000</i>	Property leasing <i>RMB'000</i>	Hotel and integrated resort general consultancy services <i>RMB'000</i>	Travel related products and services <i>RMB'000</i>	Total <i>RMB'000</i>
Geographical markets by customers' locations					
The PRC	169,635	4,059	–	–	173,694
Macau	–	–	–	250,815	250,815
Vietnam	–	–	8,494	–	8,494
	<u>169,635</u>	<u>4,059</u>	<u>8,494</u>	<u>250,815</u>	<u>433,003</u>
Rental income	–	23,021	–	–	23,021
	<u>–</u>	<u>23,021</u>	<u>–</u>	<u>–</u>	<u>23,021</u>
Total	<u><u>169,635</u></u>	<u><u>27,080</u></u>	<u><u>8,494</u></u>	<u><u>250,815</u></u>	<u><u>456,024</u></u>
Timing of revenue recognition					
A point in time	169,635	–	–	3,100	172,735
Over time	–	4,059	8,494	247,715	260,268
	<u>169,635</u>	<u>4,059</u>	<u>8,494</u>	<u>250,815</u>	<u>433,003</u>
Rental income	–	23,021	–	–	23,021
	<u>–</u>	<u>23,021</u>	<u>–</u>	<u>–</u>	<u>23,021</u>
Total	<u><u>169,635</u></u>	<u><u>27,080</u></u>	<u><u>8,494</u></u>	<u><u>250,815</u></u>	<u><u>456,024</u></u>

The duration of contracts in relation to property management services income, income from sales of travel related products, and hotel and integrated resort general consultancy services income usually varies from 1 to 20 years, 1 to 10 days and 1 year, respectively and the contract fees of those contracts are fixed.

Segment revenue and result

The following is an analysis of the Group's revenue and results by reportable and operating segments which is consistent with the revenue information.

Six months ended 30 June 2019 (Unaudited)

	Property development <i>RMB'000</i>	Property leasing <i>RMB'000</i>	Hotel and integrated resort general consultancy services <i>RMB'000</i>	Travel related products and services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue from external customers	<u>18,901</u>	<u>23,386</u>	<u>7,080</u>	<u>257,676</u>	<u>307,043</u>
Segment (loss) profit	<u>(15,263)</u>	<u>(58,224)</u>	<u>2,042</u>	<u>12,447</u>	<u>(58,998)</u>
Change in fair value of financial assets at fair value through profit or loss					20,681
Gain on disposal of subsidiaries					9,245
Change in fair value of derivative financial instruments (<i>note 14</i>)					(1,073,871)
Share of profit of associates					399
Share of loss of a joint venture					(28,068)
Unallocated other income, gains and losses					(41,931)
Unallocated finance costs					(65,159)
Unallocated expenses					<u>(23,995)</u>
Loss before taxation					<u><u>(1,261,697)</u></u>

Six months ended 30 June 2018 (Unaudited)

	Property development <i>RMB'000</i>	Property leasing <i>RMB'000</i>	Hotel and integrated resort general consultancy services <i>RMB'000</i>	Travel related products and services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue from external customers	<u>169,635</u>	<u>27,080</u>	<u>8,494</u>	<u>250,815</u>	<u>456,024</u>
Segment profit (loss)	<u>121,208</u>	<u>(3,895)</u>	<u>(2,365)</u>	<u>15,363</u>	130,311
Change in fair value of derivative financial instruments (<i>note 14</i>)					(1,572,625)
Share of loss of an associate					(593)
Unallocated other income, gains and losses					(63,198)
Unallocated finance costs					(33,712)
Unallocated expenses					<u>(25,401)</u>
Loss before taxation					<u><u>(1,565,218)</u></u>

Segment results represent the profit earned by/loss from each segment without allocation of other income, gains and losses, change in fair value of financial assets at fair value through profit or loss, finance costs, change in fair value of derivative financial instruments, share of profit (loss) of associates, share of loss of a joint venture, gain on disposal of subsidiaries and corporate expenses. This is the measure reported to the CODM for the purpose of resources allocation and performance assessment.

3. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Advertising income	40	81
Interest income	207	273
Loss on disposal of financial assets at fair value through profit or loss	(5)	–
Loss on deemed partial disposal of equity interest of an associate	(1,021)	–
Gain on disposal of property, plant and equipment	–	4
Net exchange loss	(40,561)	(63,387)
Others	1,925	884
	<u>(39,415)</u>	<u>(62,145)</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Effective interest expense on convertible bonds (<i>note 14</i>)	26,334	33,712
Imputed interest expense on promissory note	10,084	–
Imputed interest expenses on loans from a related company	16,415	–
Interest on promissory note	2,602	–
Interest on loans from a related company	9,471	–
Interest on bank borrowings	11,335	12,474
Interest on other borrowings	17,213	14,784
Interest on lease liabilities	253	–
	93,707	60,970

No finance costs have been capitalised for both periods.

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
– Enterprise Income Tax (“EIT”)	927	34,472
– Macau Complementary Income Tax (“CIT”)	1,573	1,751
	2,500	36,223
Land appreciation tax (“LAT”)	2,134	57,494
Deferred tax	(11,965)	(10,658)
	(7,331)	83,059

(a) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

(b) EIT

Under the Law of the People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards.

(c) PRC withholding income tax

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB733,635,000 (31 December 2018: approximately RMB555,170,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(d) LAT

The provision for LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

(e) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries in the British Virgin Islands were incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income tax.

(f) Macau CIT

Macau CIT is calculated at the progressive rate on the estimated assessable profits. The maximum tax rate is 12% for the six months ended 30 June 2019 and 2018.

6. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	<i>RMB'000</i> (Unaudited)
Loss for the period has been arrived at after charging (crediting) the following:		
Depreciation of property, plant and equipment	854	786
Depreciation of right-of-use assets	811	–
Directors' remuneration	5,240	6,682
Staff costs		
– salaries and wages, excluding directors	17,194	18,389
– share-based compensation benefits, excluding directors and consultants	146	642
– retirements benefits scheme contributions, excluding directors	1,197	945
Total staff costs, excluding directors and consultants	18,537	19,976
Impairment loss recognised in respect of other receivables (included in other operating expenses)	–	1,762
Cost of sales		
– cost of properties sold	14,099	44,477
– cost of travel related products sold	239,041	231,092
– cost of services rendered	2,267	3,596
	255,407	279,165
Gross rental income from investment properties	(20,557)	(23,021)
Less: Direct operating expenses incurred for investment properties	1,593	2,294
	(18,964)	(20,727)

7. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018. The directors of the Company have determined that no dividends will be paid in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

8. LOSS PER SHARE

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

Loss figures are calculated as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of calculating basic loss per share (loss for the period attributable to owners of the Company)	(1,254,190)	(1,648,052)
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of SA (as defined in note 10(a)) based on dilution of its earnings per share	<u>(5)</u>	<u>–</u>
Loss for the purpose of diluted loss per share	<u>(1,254,195)</u>	<u>(1,648,052)</u>
	Number of shares	
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>6,666,972,746</u>	<u>6,076,460,186</u>

For the six months ended 30 June 2019 and 2018, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options and the conversion of the outstanding convertible bonds of the Company since the assumed exercise of those share options and the conversion of the outstanding convertible bonds would result in decrease in loss per share.

9. MOVEMENT IN INVESTMENT PROPERTIES

The Group engages Grant Sherman Appraisal Limited, an independent and professionally qualified valuer not connected to the Group, to perform the valuation for the fair value of the Group's investment properties as at 30 June 2019 and 31 December 2018, respectively. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Income approach operates by taking into account the rental income of the property derived from the existing tenancy with due allowance for the reversionary income potential of the tenancy which are then capitalised into the value at an appropriate capitalisation rate.

Decrease in fair value of investment properties of RMB56,800,000 has been recognised directly in profit or loss for the six months ended 30 June 2019 (six months ended 30 June 2018: no change in fair value of investment properties).

As at 30 June 2019 and 31 December 2018, all investment properties of the Group have been pledged to secure the Group's bank borrowings.

10. INTERESTS IN ASSOCIATES AND A JOINT VENTURE

(a) Interests in associates

As at 31 December 2018, the financial assets at fair value through profit or loss of the Group represents approximately 3.31% equity interest in Summit Ascent Holdings Limited ("SA"), a company listed on the Stock Exchange (stock code: 102), held by the Group.

On 23 April 2019, the Group completed the acquisition of additional 24.68% equity interest in SA for a total consideration of HK\$717,812,540 (equivalent to approximately RMB613,780,000).

The directors of the Company considered that the Group has significant influence over SA through its representatives on the board of directors of SA and therefore accounted for SA as an associate upon the additional acquisition in April 2019 and as at 30 June 2019.

The financial asset represents 3.29% equity interest in SA held by the Group has been derecognised on 23 April 2019 accordingly and approximately RMB20,681,000 of gain from the derecognition has been recognised during the six months ended 30 June 2019.

After accounting for SA as an associate of the Group, the Group further acquired 1.80% equity interest of SA from the open market for a total consideration of approximately HK\$45,021,600 (equivalent to approximately RMB38,621,000).

During the six months ended 30 June 2019, certain share options granted by SA have been exercised and the equity interest of SA held by the Group has been diluted to 29.68% and approximately RMB1,021,000 of loss from such deemed partial disposal has been recognised and included in the other income, gains and losses during the six months ended 30 June 2019.

(b) Interest in a joint venture

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cost of unlisted investment	363,621	363,621
Share of loss and other comprehensive expense	(44,857)	(14,191)
Exchange difference	<u>2,298</u>	<u>2,154</u>
	321,062	351,584
Loans to a joint venture (<i>Note</i>)	444,309	444,309
Exchange difference	<u>2,221</u>	<u>1,496</u>
	<u>767,592</u>	<u>797,389</u>

Note: The loans to a joint venture are interest-free, unsecured and with no fixed repayment term. Such loans form the Group's net investment in the joint venture.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables (<i>Note</i>)		
within 30 days	48,418	62,957
31–90 days	241	129
91–180 days	23	–
over 180 days	<u>1,718</u>	<u>1,712</u>
	50,400	64,798
Other receivables	5,692	4,374
Other deposits	6,703	7,130
Prepayments	<u>3,223</u>	<u>2,360</u>
	<u>66,018</u>	<u>78,662</u>

Note:

Trade receivables relate to a number of independent customers and tenants. For credit term reviews of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit initially granted up to the end of the reporting period.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 30 June 2019 and 31 December 2018, majority of the trade receivables balances were within the credit period of 30 days, the directors of the Company considered that the lifetime expected credit loss allowance is insignificant as at 30 June 2019 and 31 December 2018.

12. TRADE AND OTHER PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables		
0-90 days	10,128	19,674
over 90 days	44,779	46,088
	54,907	65,762
Other payables and accruals (<i>Note</i>)	114,738	147,524
Interest payables	26,946	32,191
Other tax payables	17,777	23,177
	214,368	268,654

Note: Amounts mainly include accrued expenses, other payables and salaries payable.

Included in the accruals, there is an accrual of RMB24,061,000 and RMB31,725,000 related to a landslide accident occurred nearby the Group's properties held for sale in Longgang District, Shenzhen as at 30 June 2019 and 31 December 2018, respectively.

13. BANK AND OTHER BORROWINGS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bank borrowings		
– Secured	<u>385,000</u>	<u>405,000</u>
Other borrowings		
– Secured	<u>193,252</u>	193,252
– Unsecured	<u>233,000</u>	<u>87,000</u>
	<u>426,252</u>	<u>280,252</u>
	<u>811,252</u>	<u>685,252</u>
Less: Repayable on demand due to breach of loan covenants	(62,500)	–
Amounts due for settlement within one year (shown under current liabilities)	<u>(228,252)</u>	<u>(243,252)</u>
	<u>(290,752)</u>	<u>(243,252)</u>
Amounts due for settlement after one year	<u><u>520,500</u></u>	<u><u>442,000</u></u>

During the six months ended 30 June 2019, there were new other borrowings of RMB146,000,000 raised from three non-financial institutions. The new other borrowings are unsecured, with interest bearing at 6% per annum and repayable within two years.

At 30 June 2019 and 31 December 2018, the Group's assets pledged as securities for the Group's bank and other borrowings are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Investment properties	<u>1,657,400</u>	1,714,200
Inventories	<u>172,139</u>	172,139
Pledged bank deposit	<u>6</u>	<u>6</u>
	<u><u>1,829,545</u></u>	<u><u>1,886,345</u></u>

During the six months ended 30 June 2019, a wholly owned subsidiary of the Group breached the covenants of a bank borrowing due to the seize of its investment properties with carrying value of approximately RMB549,000,000 at 30 June 2019 by the court in the PRC (note 15(b)), which led to an event of default for such bank borrowing. Accordingly, the bank borrowing amounting to RMB62,500,000 is reclassified from non-current liabilities to current liabilities as of 30 June 2019. On discovery of the breach, the Company has informed the relevant bank and commenced negotiations to waive such covenant and the negotiation has not been concluded as at 30 June 2019. As of the date of this announcement, the Group has not obtained written waiver from the relevant bank for strict compliance on the relevant financial covenant requirements.

14. CONVERTIBLE BONDS/ DERIVATIVE FINANCIAL INSTRUMENTS

2016 Convertible Bond

On 8 December 2016, the Company issued a convertible bond (“**2016 Convertible Bond**”) with a principal amount of HK\$570,000,000 (equivalent to RMB505,077,000 at the issuance date) to Fame Select Limited (“**Fame Select**”), the major shareholder of the Company to set off the balance of the loan from immediate holding company and the related accrued interest due to Fame Select on a dollar-for-dollar basis against the total subscription price payable by Fame Select in respect of the subscription of the 2016 Convertible Bond.

The original maturity date of the 2016 Convertible Bond is 7 December 2018 (“**2016 CB Maturity Date**”) which is 2 years from the date of issue of the 2016 Convertible Bond. The 2016 Convertible Bond is not interest bearing and matures on 2016 CB Maturity Date at the principal amount. The 2016 Convertible Bond is convertible into shares of the Company at any time after the issuance up to the close of business on the 2016 CB Maturity Date at the conversion price of HK\$0.26 per share, subject to anti-dilutive adjustments (“**2016 CB Conversion Option**”). The initial number of ordinary shares of the Company issuable upon conversion is 2,192,307,692 shares, which represent 59.34% of the total number of ordinary shares of the Company issued and outstanding as of the issue date of the 2016 Convertible Bond as enlarged by the conversion of the entire 2016 Convertible Bond.

The Company is entitled to an option to early redeem at any time before 2016 CB Maturity Date the whole or part of the principal outstanding amount of the 2016 Convertible Bond at principal amount.

The 2016 Convertible Bond contains a debt component and derivative component. The 2016 CB Conversion Option is classified as a derivative financial liability as it will be settled other than by an exchange of a fixed amount of cash for a fixed number of the Company’s own equity instruments on the basis that the 2016 Convertible Bond is denominated in HK\$, a foreign currency of the Company.

The fair value of the 2016 Convertible Bond was approximately HK\$568,761,000 (equivalent to approximately RMB503,979,000) on the initial recognition date. On initial recognition, the debt component was recognised at fair value, calculated based on the present value of the principal amount plus accrued coupon interest over the expected life of the 2016 Convertible Bond. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.64% per annum. The derivative component is measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

On 8 May 2018, the Company and Fame Select entered into an amendment agreement (the “**Amendment Agreement**”) to extend the 2016 CB Maturity Date to 7 December 2020. The Amendment Agreement was passed by the ordinary resolution at the extraordinary general meeting of the Company held on 28 September 2018.

Due to the extension of the 2016 CB Maturity Date, the carrying amount of the debt component has been reduced from approximately HK\$553,768,000 (equivalent to approximately RMB486,929,000) to approximately HK\$469,683,000 (equivalent to approximately RMB412,993,000) on 28 September 2018 (i.e. date of extension) based on the present value of the principal amount plus accrued coupon interest over the expected life of the 2016 Convertible Bond after extension of maturity date. The change in fair value of debt component of approximately HK\$84,085,000 (equivalent to approximately RMB73,936,000) is recognised in profit or loss. The effective interest rate of the debt component is 8.01% per annum after extension.

On 8 November 2018, the Company received the conversion notice from Fame Select in respect of the exercise in part of the subscription rights attached to the 2016 Convertible Bond to convert an aggregate of HK\$168,000,000 of the principal amount of the 2016 Convertible Bond into 646,153,846 ordinary shares at the conversion price of HK\$0.26 per share.

Due to the conversion of partial 2016 Convertible Bond, the carrying amount of the debt component has been reduced from approximately HK\$502,867,000 (equivalent to approximately RMB444,204,000) to approximately HK\$334,867,000 (equivalent to approximately RMB295,803,000) and the carrying amount of the derivative financial instruments have been reduced from approximately HK\$1,558,596,000 (equivalent to approximately RMB1,376,770,000) to approximately HK\$1,099,220,000 (equivalent to approximately RMB970,985,000) on 8 November 2018 (i.e. date of partial conversion) based on the present value of the principal amount plus accrued coupon interest over the expected life of the remaining 2016 Convertible Bond after the conversion of partial 2016 Convertible Bond. The change in carrying amount of the debt component of HK\$168,000,000 (equivalent to approximately RMB148,401,000) and of the derivative financial instruments of approximately HK\$459,376,000 (equivalent to approximately RMB405,785,000) are transferred to the equity.

The fair values of the derivative financial instruments of 2016 Convertible Bond as at 1 January 2018, 30 June 2018, 28 September 2018, 8 November 2018, 31 December 2018 and 30 June 2019 are determined by Grant Sherman Appraisal Limited, an independent and professionally qualified valuer not connected to the Group, based on the Binomial Option Pricing Model (the “**Binomial Model**”).

2018 Convertible Bond

On 28 August 2018, the Company issued a convertible bond (“**2018 Convertible Bond**”) with a principal amount of HK\$297,000,000 (equivalent to approximately RMB257,475,000 at the issuance date) to Star Hope Limited, a related company wholly owned by Mr. Chau Cheok Wa, the controlling shareholder, chairman and director of the Company and Better Linkage Limited, a related company wholly owned by Mr. Lo Kai Bong, a director of the Company, for the acquisition of the entire equity interest of a joint venture.

The maturity date of the 2018 Convertible Bond is 28 August 2020 (“**2018 CB Maturity Date**”) which is 2 years from the date of issue of the 2018 Convertible Bond. The 2018 Convertible Bond is not interest bearing and matures on 2018 CB Maturity Date at the principal amount. The 2018 Convertible Bond is convertible into shares of the Company at any time after the issuance up to the close of business on the 2018 CB Maturity Date at the conversion price of HK\$0.90 per share, subject to anti-dilutive adjustments (“**2018 CB Conversion Option**”). The initial number of ordinary shares of the Company issuable upon conversion is 329,999,999 shares, which represent 5.20% of the total number of ordinary shares of the Company issued and outstanding as of the issue date of the 2018 Convertible Bond as enlarged by the conversion of the entire 2018 Convertible Bond.

The Company is entitled to an option to early redeem at any time before 2018 CB Maturity Date the whole or part of the principal outstanding amount of the 2018 Convertible Bond at principal amount.

The 2018 Convertible Bond contains a debt component and derivative component. The 2018 CB Conversion Option is classified as a derivative financial liability as it will be settled other than by an exchange of a fixed amount of cash for fixed number of the Company’s own equity instruments on the basis that the 2018 Convertible Bond is denominated in HK\$, a foreign currency of the Company.

The fair value of the 2018 Convertible Bond is approximately HK\$471,123,000 (equivalent to approximately RMB408,426,000) on the initial recognition date. On initial recognition, the debt component was recognised at fair value, calculated based on the present value of the principal amount plus accrued coupon interest over the expected life of the 2018 Convertible Bond. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 9.86% per annum. The derivative component is measured at fair values at the issuance date and in subsequent periods with changes in fair value recognised in profit or loss.

The fair values of the derivative financial instruments of 2018 Convertible Bond as at 28 August 2018, 31 December 2018 and 30 June 2019 are determined by Grant Sherman Appraisal Limited, an independent and professionally qualified valuer not connected to the Group, based on the Binomial Model.

The inputs used for the calculations of fair values of the derivative financial instruments are as follows:

2016 Convertible Bond

	30 June 2019	31 December 2018
Share price	HK\$1.910	HK\$1.230
Conversion price	HK\$0.260	HK\$0.260
Expected volatility (<i>Note (a)</i>)	63.07%	69.17%
Expected option life	1.44 years	1.94 years
Expected dividend yield (<i>Note (b)</i>)	Zero	Zero
Risk-free rate (<i>Note (c)</i>)	1.85%	2.18%

2018 Convertible Bond

	30 June 2019	31 December 2018
Share price	HK\$1.910	HK\$1.230
Conversion price	HK\$0.90	HK\$0.90
Expected volatility (<i>Note (a)</i>)	59.56%	66.83%
Expected option life	1.16 Years	1.66 Years
Expected dividend yield (<i>Note (b)</i>)	Zero	Zero
Risk-free rate (<i>Note (c)</i>)	1.95%	2.17%

Notes:

- (a) The expected volatility was determined by using the historical volatility of the Company's share price over a period commensurate with the remaining term.
- (b) The expected dividend yield was estimated with reference to the historical dividend payment record and the expected dividend payment in the next two years of the Company.
- (c) Risk-free rate is estimated based on the yield of Hong Kong Dollar Swap Curve with a similar remaining tenure.

The movements of the debt component of convertible bonds and derivative financial instruments are shown respectively as follows:

2016 Convertible Bond

	Debt component RMB'000	Derivative financial instruments RMB'000	Total RMB'000
At 1 January 2018 (Audited)	411,107	439,938	851,045
Charge to profit or loss	–	1,572,625	1,572,625
Exchange difference	4,716	58,610	63,326
Effective interest expense	<u>33,712</u>	<u>–</u>	<u>33,712</u>
At 30 June 2018 (Unaudited)	449,535	2,071,173	2,520,708
(Credit) charge to profit or loss, including adjustment on extension recognised in profit or loss	(73,936)	9,940	(63,996)
Exchange difference	19,443	89,008	108,451
Effective interest expense	<u>17,951</u>	<u>–</u>	<u>17,951</u>
At 28 September 2018 (date of extension)	412,993	2,170,121	2,583,114
Credit to profit or loss	–	(807,286)	(807,286)
Exchange difference	1,875	13,935	15,810
Effective interest expense	29,336	–	29,336
Partial conversion to shares during the year	<u>(148,401)</u>	<u>(405,785)</u>	<u>(554,186)</u>
At 8 November 2018 (date of partial conversion)	295,803	970,985	1,266,788
Charge to profit or loss	–	443,958	443,958
Exchange difference	(2,416)	(10,518)	(12,934)
Effective interest expense	<u>4,121</u>	<u>–</u>	<u>4,121</u>
At 31 December 2018 (Audited)	297,508	1,404,425	1,701,933
Charge to profit or loss	–	905,001	905,001
Exchange difference	1,446	22,535	23,981
Effective interest expense (note 4)	<u>13,789</u>	<u>–</u>	<u>13,789</u>
At 30 June 2019 (Unaudited)	<u>312,743</u>	<u>2,331,961</u>	<u>2,644,704</u>
2018 Convertible Bond			
At 28 August 2018 (date of issuance)	206,611	201,815	408,426
Credit to profit or loss	–	(29,732)	(29,732)
Exchange difference	2,147	2,374	4,521
Effective interest expense	<u>8,854</u>	<u>–</u>	<u>8,854</u>
At 31 December 2018 (Audited)	217,612	174,457	392,069
Charge to profit or loss	–	168,870	168,870
Exchange difference	1,104	3,855	4,959
Effective interest expense (note 4)	<u>12,545</u>	<u>–</u>	<u>12,545</u>
At 30 June 2019 (Unaudited)	<u>231,261</u>	<u>347,182</u>	<u>578,443</u>
Total			
At 30 June 2019 (Unaudited)	<u>544,004</u>	<u>2,679,143</u>	<u>3,223,147</u>
At 31 December 2018 (Audited)	<u>515,120</u>	<u>1,578,882</u>	<u>2,094,002</u>

15. CONTINGENT LIABILITIES

- (a) At 30 June 2019 and 31 December 2018, the Group provided guarantees to certain banks in respect of mortgage facilities granted in connection with the mortgage loans entered into by buyers of the Group's properties as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Guarantees given to banks for mortgage facilities granted to buyers	<u>990</u>	<u>990</u>

Pursuant to the terms of the guarantees contract, if there are any defaults on the mortgages, the Group is liable to the repayment of the outstanding mortgage principals together with the accrued interest and penalty payable by the defaulting buyers to banks. The Group is then entitled to take over the legal title and possession of the related properties. The guarantees shall be released upon the issue of the relevant buyer's property ownership certificate and in the custody of the banks.

The fair value of the guarantees at date of inception is not significant and is not recognised in the condensed consolidated financial statements. The directors of the Company consider that no provision should be recognised at the end of each reporting period as the potential cash outflow related to the guarantee is not probable.

Bank balances of approximately RMB297,000 (31 December 2018: RMB297,000) have been pledged with the banks as guarantee deposits for the mortgage loan facilities granted by the banks to buyers of the Group's properties as at 30 June 2019.

- (b) During 2013, a subsidiary of the Group was involved in a litigation with an individual (the "Plaintiff") in respect of the right to use of an area located at the investment properties of the Group (the "Unit"). The Plaintiff claimed that she had a lease agreement regarding the right to use the Unit for the period from 26 September 2011 to 24 October 2062 and sought for damages in respect of the loss arising from failing to use of the Unit (the "Claim"). There were total four instances (namely first instance, second instance, third instance and the re-trial) held in 2014 to 2019. The judge rejected all demands from the Plaintiff in the first and second instances, however during the end of 2018, the judge accepted the appeal in the third instance and an order for a re-trial in the Shenzhen People's Court was finished in June 2019 and the outcome is yet to be released. As at 30 June 2019, the Group estimated the compensation for such loss was approximately RMB5,000,000 and the fair value of the Unit was approximately RMB18,000,000. According to the judgements of the court dated 7 May 2019 and 27 May 2019, certain portion of the investment properties of the Group with fair value of approximately RMB549,000,000 was seized for the period from 10 May 2019 to 9 May 2022.

As at the date of this announcement, the litigation is still pending and the Group intends to defend the Claim and reserves its right to pursue all legal rights and remedies available to it in connection with the proceedings. In accordance with the legal opinion provided by an independent PRC lawyer, the Group is of the opinion that it is not probable that an outflow of resources will be required in relation to this legal proceeding.

16. EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to the end of the reporting period, the Company granted share options to certain eligible participants (including the directors of the Company, employees and consultants of the Group) to subscribe, in aggregate, for up to 57,000,000 ordinary shares of HK\$0.1 each in the share capital of the Company (of which 600,000 share options were not accepted subsequently). The Group is still assessing the fair value of the share options as well as the potential financial impact.

- (b) Subsequent to the end of the reporting period, SA issued 300,000,000 shares to not less than six independent third parties at HK\$1.01 each, upon the completion of the issuance of shares, the equity interest of SA held by the Group will be diluted from 29.68% to 24.74%, and an estimated loss on deemed partial disposal of equity interest in an associate of approximately RMB58,702,000 will be recognised.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue was derived from (i) property development, (ii) property leasing, (iii) provision of hotel and integrated resort general consultancy services, and (iv) provision of travel related products and services. Revenue for the period under review was approximately RMB307.0 million, decreased by approximately RMB149.0 million when compared to approximately RMB456.0 million for the corresponding period in 2018. The decrease was mainly attributable to the decrease in revenue from the property development segment.

- i) **Property development** – The Group delivered residential units in the aggregate Gross Floor Area (“GFA”) of approximately 621 m² (six months ended 30 June 2018: 2,749 m²), including high-rise building units of approximately 621 m² (six months ended 30 June 2018: 1,242 m²), luxury high-rise building units of nil m² (six months ended 30 June 2018: 279 m²) and villa of nil m² (six months ended 30 June 2018: 1,227 m²). As a result of the decrease in sale of GFA, revenue for the six months ended 30 June 2019 decreased by approximately RMB150.7 million.
- ii) **Property leasing** – The revenue represented the rental income and property management services income from the leasing of Gang Long City Shopping Centre. It recorded a slight decrease from RMB27.1 million for the six months ended 30 June 2018 to approximately RMB23.4 million for the period under review resulting from the continual decrease in occupancy rate of the shopping centre.
- iii) **Hotel and integrated resort general consultancy services** – Hotel and integrated resort general consultancy services commenced since the second half of 2017 and the Group entered into technical service agreements with integrated resorts in Vietnam and Cambodia, therefore generated revenue of approximately RMB7.1 million for the period under review (six months ended 30 June 2018: RMB8.5 million).
- iv) **Travel related products and services** – Revenue mainly represented the sales of hotel accommodation products and travel agency services income, revenue from this segment has been growing continuously to RMB257.7 million in current period (six months ended 30 June 2018: RMB250.8 million).

Other income, gains and losses

The decrease in other income, gains and losses during the six months under review was mainly due to the decrease in net exchange loss to RMB40.6 million (six months ended 30 June 2018: net exchange loss of RMB63.4 million) which was primarily due to the translation of convertible bonds, derivative financial instruments, loans from a related company and promissory notes.

Selling and distribution expenses

The slight increase in selling and distribution expenses during the six months under review was mainly attributable to increase in commission paid for the sales of Le Paysage.

Administrative expenses

The decrease in administrative expenses for the six months under review was mainly attributable to the decrease in share-based compensation benefits and legal and professional fees in relation to litigations.

Other operating expenses

The decrease for the six months under review was mainly due to no bank service charge for settlement of litigation claim and impairment loss in respect of other receivables recognised for the period under review.

Change in fair value of investment properties

It referred to the change in fair value of Gang Long City Shopping Centre located in Shenzhen, the PRC. The fair value of the investment properties as at 30 June 2019 was assessed by an independent valuer. The decrease in first half of 2019 was mainly due to the prevailing market conditions.

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

During the period under review, the Group held certain number of shares of Summit Ascent Holdings Limited, a company listed on the Stock Exchange (stock code: 102) (“**Summit Ascent**”), and upon the completion of further acquisition of approximately 24.68% equity interest in Summit Ascent, those shares held were reclassified as investment in an associate and the gain were recognised upon such reclassification.

Gain on disposal of subsidiaries

The Group disposed of its equity interest in Sun Metro Real Estate Company Limited, which indirectly held 90% attributable interest in its property development project at Fushun, Liaoning Province, the PRC, at the consideration of RMB20,000,000 (equivalent to HK\$23,000,000).

Change in fair value of derivative financial instruments

It represented the change in fair value of derivative components carried in the 2016 Convertible Bond in the outstanding principal amount of HK\$402,000,000 (equivalent to approximately RMB356,212,000 at the issuance date) and the 2018 Convertible Bond in the principal amount of HK\$297,000,000 (equivalent to approximately RMB257,475,000 at the issuance date). The fair value of the derivative components as at 30 June 2019 was assessed by an independent valuer.

Reversal of provisions for potential claims

The provisions for potential claims represented the potential refund of deposits and compensation to the buyers of the properties held for sale in relation to breach of terms stipulated in the sales and purchase agreement entered into between the Group and the buyers. Followed by the formal release of the seizure of properties by the court in 2018, no further reversal of provisions for potential claims was recognised during the six months under review (six months ended 30 June 2018: reversal provisions for potential claims of RMB19,368,000).

Share of profit (loss) of associates

On 23 April 2019, the Group acquired approximately 24.68% of the issued share capital of Summit Ascent at the consideration of HK\$717,812,540 (the “**Acquisition**”). Prior to Acquisition, the Group held approximately 3.29% of the issued share capital of the Summit Ascent, which was classified as financial assets at fair value through profit or loss. Upon the completion of the Acquisition, the interest of the Group in the Summit Ascent increased from approximately 3.29% to approximately 27.97%, since then Summit Ascent was classified as an associate of the Group. Details of which are disclosed in the announcement of the Company dated 23 April 2019. As at 30 June 2019, the Group held approximately 29.68% equity interest in Summit Ascent.

The amount represented the share of profit or loss and other comprehensive income or expense of the Group’s associate which was incorporated in November 2017 and Summit Ascent.

Share of loss of a joint venture

The amount represented the share of loss of the Group's joint venture which was acquired through the acquisition of the entire equity interest and shareholder's loan owed by Star Admiral Limited ("**Star Admiral**") in second half of 2018. The principal assets of Star Admiral is approximately 34% equity interest in the integrated resort development project located in Hoi An South, Quang Nam Province, Vietnam (the "**Hoiana Project**") and since the Hoiana Project is still under construction phase and therefore, it was in loss making position.

Finance costs

Finance costs for the six months under review comprise (i) interests on interest-bearing bank and other borrowings, (ii) effective interest expense on convertible bonds, (iii) interests and imputed interest expense on promissory note and loans from a related company and (iv) interest on lease liabilities. The increase in finance costs during the period under review was mainly attributable to the promissory note issued in second half of 2018 and the loans from a related company drawn in second half of 2018 and the period under review.

Income tax credit (expense)

Income tax expense comprises current tax, LAT and deferred taxation and the decrease for the six months under review was mainly due to the decreases in LAT and recognition of deferred tax credit for change in fair value of investment properties, thus an income tax credit was recorded during the period under review.

SEGMENT ANALYSIS

During the six months under review, (i) property development revenue; (ii) property leasing revenue; (iii) hotel and integrated resort general consultancy services income; and (iv) travel related products and services revenue accounted for approximately 6.2% (six months ended 30 June 2018: 37.2%), 7.6% (six months ended 30 June 2018: 5.9%), 2.3% (six months ended 30 June 2018: 1.9%), and 83.9% (six months ended 30 June 2018: 55.0%) of total segment revenue of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

Bank balances and cash, pledged bank deposits and restricted bank deposits, in aggregate, as at 30 June 2019 amounted to approximately RMB96.8 million (31 December 2018: RMB103.1 million).

The Group had bank and other borrowings of approximately RMB811.3 million as at 30 June 2019 (31 December 2018: RMB685.3 million) of which RMB290.8 million were repayable on demand or within one year, RMB250.5 million were repayable in the second year; approximately RMB90.0 million were repayable in the third to fifth year, inclusive; and the remaining RMB180.0 million were repayable after the fifth year. The Group's borrowings carried interest at fixed or floating interest rates. The Group issued a HK\$ denominated promissory note ("**2016 Promissory Note**") of principal amount HK\$5.6 million (equivalent to approximately RMB4.7 million at date of issuance) to a director. The carrying amount of the 2016 Promissory Note at 30 June 2019 was RMB4.9 million (31 December 2018: RMB4.9 million) which is unsecured, non-interest bearing and repayable on 31 August 2020. The Group issued a HK\$ denominated promissory note ("**2018 Promissory Note**") of principal amount HK\$303.0 million (equivalent to approximately RMB262.7 million) to a related company. The carrying amount of the 2018 Promissory Note at 30 June 2019 was RMB240.2 million (31 December 2018: RMB229.0 million) and it is unsecured, interest bearing at 2% per annum and repayable after two years from the date of issuance. The Group had loans from a related company of approximately RMB525.5 million as at 30 June 2019 (31 December 2018: RMB164.5 million). The amounts are unsecured, interest bearing at 3.5% and repayable after 60 months from the effective date of the loan agreement. The Group's total bank and other borrowings, promissory notes and loans from a related company divided by total assets as at 30 June 2019 was 39.2% (31 December 2018: 31.4%).

As at 30 June 2019, the Group had convertible bonds and derivative financial instruments of approximately RMB544.0 million (31 December 2018: RMB515.1 million) and RMB2,679.1 million (31 December 2018: RMB1,578.9 million), respectively. The total of convertible bonds and derivative financial instruments divided by total assets as at 30 June 2019 was 79.8% (31 December 2018: 60.6%).

As at 30 June 2019, the Group had current assets of approximately RMB752.4 million (31 December 2018: RMB828.2 million) and current liabilities of approximately RMB3,781.8 million (31 December 2018: RMB2,799.0 million).

CHARGE ON ASSETS

As at 30 June 2019, bank and other borrowings of approximately RMB811.3 million (31 December 2018: RMB685.3 million) were secured by certain investment properties, inventories and pledged bank deposits of the Group of approximately RMB1,657.4 million (31 December 2018: RMB1,714.2 million), RMB172.1 million (31 December 2018: RMB172.1 million) and RMB0.006 million (31 December 2018: RMB0.006 million) respectively.

As at 30 June 2019, pledged bank deposits of approximately RMB7.2 million (31 December 2018: RMB7.1 million) were pledged for the license and suppliers in relation to Sun Travel Ltd., an indirect wholly-owned subsidiary of the Company.

As at 30 June 2019, pledged bank deposits of approximately RMB0.3 million (31 December 2018: RMB0.3 million) have been pledged with the banks as guarantee deposits for the mortgage loan facilities granted to the buyers of the Group's properties.

As at 30 June 2019, the indirect equity interest of approximately 34% in Hoi An South Development Limited (“**HASD**”) were pledged to a bank for the banking facilities granted to HASD.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The functional currency of the Company and the presentation currency of condensed consolidated financial statements of the Company are in Renminbi. The income and expenses, assets and liabilities, interests in associates and interest in a joint venture of the Company and its subsidiaries which denominated in currencies other than the functional currency are converted into Renminbi for financial reporting purpose. Fluctuations in exchange rates may have an impact on the Group's financial position and results. The Group monitors the exposure to fluctuations in exchange rates and takes appropriate measures to mitigate and manage the risk on a timely and effective manner. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure to fluctuations in exchange rates as at 30 June 2019.

CONTINGENT LIABILITIES

For details of contingent liabilities, please refer to note 15.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 23 April 2019, the Group acquired approximately 24.68% of the issued share capital of Summit Ascent at the consideration of HK\$717,812,540 (the “**Acquisition**”). Prior to the Acquisition, the Group held approximately 3.29% of the issued share capital of the Summit Ascent. Upon the completion of the Acquisition, the interest of the Group in the Summit Ascent increased from approximately 3.29% to approximately 27.97%. After the Acquisition, the Group further acquired 1.80% equity interests of Summit Ascent from the open market for a consideration of approximately HK\$45,021,600. As at 30 June 2019, the Group held approximately 29.68% equity interest in Summit Ascent and Summit Ascent was classified as an associate of the Group since the completion of the Acquisition.

On 30 April 2019, the Group as vendor, entered into a conditional agreement (the “**Agreement**”) with a company as purchaser (the “**Purchaser**”). Pursuant to the Agreement, the Group agreed to sell and the Purchaser agreed to purchase the entire equity interest in Sun Metro Real Estate Company Limited (“**Sun Metro**”), a wholly-owned subsidiary of the Group, at a consideration of RMB20,000,000. The consideration was determined after arm’s length negotiation between the Group and the Purchaser. The transaction was completed on 3 May 2019 on which date control of Sun Metro passes to the Purchaser.

Sun Metro is principally an investment holding company. Sun Metro held 100% equity interests in Sun Metro Real Estate (HK) Company Limited (“**Sun Metro (HK)**”) which is principally engaged in investment holding. Sun Metro (HK) held 90% equity interests in Fushun Sun Era Property Development Company Limited (“**Fushun**”). The remaining 10% equity interest in Fushun was held by a subsidiary of the Purchaser. Fushun is principally engaged in property development in the PRC. Fushun is classified as an insignificant subsidiary of the Company under Chapter 14A of the Listing Rules. As the Purchaser is a substantial shareholder of insignificant subsidiary of the Company, the Purchaser is not regarded as a connected person under Chapter 14A of the Listing Rules. Save for the interests in Fushun, the Purchaser is an independent third party of the Group (as defined under the Listing Rules).

Save for the acquisition and disposal above, the Group had no significant investments, material acquisitions and disposals of subsidiaries during the period ended 30 June 2019.

TREASURY POLICIES AND CAPITAL STRUCTURE

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

EMPLOYEES

As at 30 June 2019, the Group had a staff force of approximately 153 (30 June 2018: 155) employees. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses and long-term incentives (such as share option scheme). Total staff costs incurred for the six months ended 30 June 2019 was approximately RMB18.5 million (six months ended 30 June 2018: RMB20.0 million).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

Details of significant event of the Group after the reporting period are set out in note 16.

BUSINESS REVIEW

During the six months ended 30 June 2019, the Group continued to engage in (i) property development in the PRC; (ii) property leasing in the PRC, (iii) provision of hotel and integrated resort general consultancy services in Vietnam and Cambodia; and (iv) travel related products and services.

Property development

During the first half of 2019, the Chinese economy continued its steady growth with key macroeconomic indicators maintaining within a reasonable range. In recent years, stringent regulations and policies imposed on the PRC real estate market which adhered to the principal that "no speculation on residential properties" and proposed to implement the long-term adjustment mechanism of different strategies for optimising the development of the PRC real estate sector. During period under review, the overall PRC real estate market maintained its steady trend with a slight decline, further realising the goal of the policy for the real estate industry.

As at 30 June 2019, the Group had two property development projects in the PRC, namely Le Paysage in Shenzhen, Guangdong Province and the Landale located at Chaohu, Anhui Province.

Le Paysage

Le Paysage is in the boarder land of Luohu district and Longgang district of Shenzhen, on the hillside of the east side of Qingping expressway and Fengyi mountain tunnel. Le Paysage consists of premier villas, residential units and retail shops with total saleable GFA of approximately 96,953 m². The Group has commenced to deliver Le Paysage to buyers since the third quarter of 2014 and has already sold approximately 86% of the total saleable area of Le Paysage as at 30 June 2019.

Landale

The Landale is currently suspended due to the change in policy regarding the rules of scenic area in the PRC. During the six months ended 30 June 2019, the Group received a notice from Chaohu City People's Government (the "**Chaohu Government**") that in accordance with the relevant laws and rules of scenic area in the PRC, the Chaohu Government intends to reclaim the land use rights in respect of the Landale project of total land area of approximately 183.54 Chinese Mu (equivalent to approximately 122,360 m²) owned by the Group's subsidiary with appropriate compensation to be paid to the Group's subsidiary, which is yet to be determined. Details of which are disclosed in the announcement of the Company dated 12 April 2019.

Apart from the PRC, the Group has been exploring opportunities in other Asian countries such as Vietnam, Korea, Japan, Philippines and Myanmar.

Property leasing

The property leasing business is principally engaged in the leasing of a portion of Hong Long Plaza in Shenzhen, which is known as the Gang Long City Shopping Centre. The shopping centre has a leasable area of 64,397 m² and the occupancy rate for the six months ended 30 June 2019 was 66.0% (six months ended 30 June 2018: 87.0%).

Hotel and integrated resort general consultancy services

The Group commenced the provision in hotel and integrated general consultancy services in 2017 and several agreements have been signed with integrated resorts in Vietnam and Cambodia. As those integrated resorts are still under construction and the construction will be completed between 2019 Q4 and 2020 Q1 onwards, the Group believes the performance of this segment will improve in the coming years.

Travel related products and services

The Group commenced the provision of hotel accommodation products, transportation tickets and travel related products in Macau since 2016. In addition to the traditional point-of-sale channels, the Group is in the process of developing a mobile application to facilitate the sale of travel related products and aim to launch in 2019 Q3.

According to the information published by the Statistics and Census Service Bureau of the Macau SAR Government, the number of visitor arrivals exceeded 20.2 million during the six months ended 30 June 2019, up by 20.6% comparing to the corresponding period of 2018. The average occupancy rate of hotels and guesthouses for the six months ended 30 June 2019 increased by 1.1% to 91.1% comparing to the corresponding period of 2018. The average length of stay of guests for the first half of 2019 held steady at 1.5 nights.

Following the opening of Hong Kong-Zhuhai-Macao Bridge in October 2018, Macau's tourism industry will be a key beneficiary of the 55-kilometer link as it puts Hong Kong, Macau and Zhuhai within an hour's drive of each other and it is expected to boost the regional tourism.

Having considered the above, together with the direction of Macau's tourism moving towards a "World Centre of Tourism and Leisure", we are optimistic on the development of the travel related products and services segment.

Investment in integrated resorts

(i) *The Hoiana Project*

On 28 August 2018, the Group completed the acquisition of the entire equity interest and shareholder's loan owed by Star Admiral. Star Admiral held approximately 34% indirect equity interest in the Hoiana Project. The Hoiana Project is expected to comprise of seven phases to be developed over a span of thirteen years on a site of approximately 985.5 hectares. Phase 1 is currently under development and is expected to be completed between 2019 Q4 and 2020 Q1 and it will include more than 1,000 hotel rooms, a casino with 140 gaming tables and over 300 slot machines, as well as a golf course.

(ii) *The TIGRE DE CRISTAL*

At 30 June 2019, the Group held approximately 29.68% equity interest of Summit Ascent. Summit Ascent held 60% of the issued share capital of an integrated resort named "TIGRE DE CRISTAL". Phase 1 of TIGRE DE CRISTAL was opened since 2015 and is comprised of gaming area with 30 VIP gaming tables, 33 mass market gaming tables, 290 slot machines and a 121 rooms 5-star hotel.

The next phase of TIGRE DE CRISTAL is expected to be comprised of a 4-5 star hotel with 350 rooms, 50 VIP gaming tables, 25 mass gaming tables and 300 gaming machines, four restaurants, luxury shopping arcade, a mixed-use Meetings, Incentives Conference and Events (MICE) facility and an indoor beach club.

Review and Outlook

The Group recorded a loss attributable to owners of the Company of RMB1,254.2 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB1,648.1 million). Nevertheless, the Group reported a reduction of loss attributable to owners of the Company by 23.9% as compared to the corresponding period of 2018. This was primarily resulted from the decrease in loss of change in fair value of derivative financial instruments offset against the decline in revenue from property development segment and the loss of change in fair value of investment properties. During the period under review, the Group recorded a decline in total revenue from RMB456.0 million to RMB307.0 million when compared with the first half of 2018, representing a 32.7% decrease. Gross profit also decreased by 70.8% to RMB51.6 million. These were mainly attributable to the decrease in revenue from sale of properties of the Group.

Outside the Greater China, in addition to the entering several technical service and casino management agreements in Vietnam and Cambodia in 2018, we are also delighted to report that the Group has successfully acquired a joint venture which primarily holds approximately 34% equity interest in the Hoiana Project in 2018. Phase 1 of the Hoiana Project is currently under development and is expected to be completed between 2019 Q4 and 2020 Q1. It will include more than 1,000 hotel rooms, a casino with 140 gaming tables and over 300 slot machines as well as a 18-hole golf course.

During the period under review, the Group has acquired approximately 29.68% equity interest in Summit Ascent which held 60% of the issued share capital of the TIGRE DE CRISTAL Project, the Group is currently working on the improvements to the project as well as the next phase.

With the opening of Hong Kong-Zhuhai-Macao Bridge in 2018, Macau's tourism industry will be a key beneficiary of the 55-kilometer link. It is believed our travel-related business in Macau will be benefited.

For Vietnam's tourism industry, it is developing at an astonishing rate over the past few years, international arrivals have been surging at an annual rate of 30%, with a continuous influx of investment in luxury tourism products, including leisure tourism, sea tourism, mountain retreats, and golf entertainment. The first-ever casino in Vietnam that allows Vietnamese citizens to enter and wager was also opened in 2019. On the other hand, the economy of Cambodia has been improving in recent years, its gross domestic product worth 22.16 billion US dollars in 2017 whereas tourist arrivals have reached 5.6 million. Both are reaching all-time highs.

These are the basis for us to believe that our business strategies will continue in tourism-related business in Asian countries. We are on the right track and we are dedicated to bring greater value to our shareholders in the long run.

The Group will continue to diversify its businesses to tourism-related business in Asian Countries and grasp opportunities on the provision for hotel and integrated resort general consultancy services. During the six months ended 30 June 2019, the Group signed a non-legal binding memorandum of understanding with Paradise Co., Ltd. (“**Paradise**”) on a possible co-operation on Paradise’s casino in Busan, Korea, and we believe that the cooperation can enable both parties to create a synergy and develop its own strengths, resources and expertise. The Group aims to build an integrated tourism related platform with equity investments in integrated resorts as well as a tourism-related service provider to integrated resorts within the Asian region.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, the Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report, as amended from time to time (the “**Code**”), as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). As far as the Code is concerned, the Company complies with all aspects of the Code during the six months ended 30 June 2019, save as disclosed below:

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Following the resignation of Ms. Yeung So Lai as an executive Director and the chief executive officer of the Company (the “**Chief Executive Officer**”) on 31 March 2017, the Company has not appointed an individual to take up the vacancy of the Chief Executive Officer, and the roles and functions of the Chief Executive Officer have been performed by all the executive Directors collectively.

Under code provision D.1.4 of the Code, the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Mr. Chau Cheok Wa (“**Mr. Chau**”), Mr. Lo Kai Bong (“**Mr. Lo**”), Mr. Au Chung On John (“**Mr. Au**”) and Mr. Manuel Assis Da Silva, executive Directors of the Company. However, Mr. Chau, Mr. Lo, Mr. Au and Mr. Manuel Assis Da Silva are subject to retirement by rotation at least once in every three years in accordance with the Company’s articles of association.

Under code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting of the Company and invite the chairman of the committees to attend. However, due to his other business commitment, Mr. Chau, the chairman of the Board, did not attend the annual general meeting of the Company held on 14 June 2019.

AUDIT COMMITTEE

The Company has established an audit committee (“**Audit Committee**”) with written terms of reference to set out its authority and duties. The Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions of Directors and employees (the “**Securities Code**”) no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. On specific enquiries made, all Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2019.

Employees who are likely to be in possession of unpublished price sensitive information of the Company are also subject to compliance with the Securities Code.

APPROVAL OF INTERIM REPORT

The unaudited condensed consolidated financial statements in the interim report have been reviewed by Deloitte Touche Tohmatsu, the independent auditor of the Company, in accordance with Hong Kong Standard on Review Engagement 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants and the Audit Committee, and the interim report was approved and authorised for issue by the Board on 29 August 2019.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is an extract of the independent auditor's report on review of the Group's condensed consolidated financial statements for the six months period ended 30 June 2019 which has included material uncertainty related to going concern paragraph, but without qualification:

CONCLUSION

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

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the condensed consolidated financial statements which indicates that the Group incurred a net loss of RMB1,254,366,000 during the six months ended 30 June 2019 and, as at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB3,029,405,000 and total liabilities exceeded its total assets by RMB1,947,176,000. As stated in note 1 to the condensed consolidated financial statements, the Group is dependent on the financial support from its controlling shareholder, including the advances from a controlling shareholder and related companies and convertible bonds of which the aggregate carrying amount is approximately RMB3,776,968,000. If the finance was not available, the Group may not be able to satisfy its financial obligations as and when they fall due in the ordinary course of business. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

By order of the Board
Suncity Group Holdings Limited
Chau Cheok Wa
Chairman

Hong Kong, 29 August 2019

As at the date of this announcement, the executive Directors are Mr. Chau Cheok Wa, Mr. Lo Kai Bong, Mr. Au Chung On John and Mr. Manuel Assis Da Silva; and the independent non-executive Directors are Mr. Tou Kin Chuen, Dr. Wu Kam Fun Roderick and Mr. Lo Wai Tung John.