# 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 2020

### FINANCIAL HIGHLIGHTS

| | **Six months ended 30 June** | | Change | |
|---|---|---|---|---|
| | **2020** | 2019 | | |
| | ***RMB'million*** | *RMB'million* | *RMB'million* | *%* |
| | **(Unaudited)** | (Unaudited) | | |
| Revenue | **661.6** | 59.4 | 602.2 | +1,013.8% |
| Gross profit | **289.6** | 26.4 | 263.2 | +997.0% |
| Gross profit margin | **43.8%** | 44.4% | N/A | –0.6p.p. |
| Profit/(loss) attributable to equity shareholders of the Company | **69.0** | (12.3) | 81.3 | N/A |
| Net profit/(loss) margin | **10.4%** | –20.7% | N/A | N/A |
| Profit/(loss) earnings per share — Basic and diluted *(RMB cents)* | **9.20** | (1.64) | 10.84 | N/A |
| Interim dividend per share *(RMB cents)* | **—** | — | — | N/A |

The board (the "Board") of directors (the "Directors") of Million Cities Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2020 together with the comparative figures for 2019 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the six months ended 30 June 2020*
*(Expressed in Renminbi)*

| | *Note* | **Six months ended 30 June 2020** ***RMB'000*** **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|---|
| **Revenue** | *4* | **661,597** | 59,416 |
| Cost of sales | | **(371,994)** | (33,045) |
| **Gross profit** | | **289,603** | 26,371 |
| Valuation gains on investment properties | | **—** | 580 |
| Other net income | *5* | **4,271** | 7,759 |
| Selling expenses | | **(4,658)** | (2,046) |
| Administrative expenses | | **(27,088)** | (29,651) |
| Other expenses | | **(1,559)** | (1,770) |
| **Profit from operations** | | **260,569** | 1,243 |
| Finance costs | *6(a)* | **(4,530)** | (5,775) |
| Share of profits less losses of associates | | **(45)** | (38) |
| Share of profits less losses of joint ventures | | **919** | (1,844) |
| **Profit/(loss) before taxation** | | **256,913** | (6,414) |
| Income tax | *7* | **(121,242)** | (7,563) |
| **Profit/(loss) for the period** | | **135,671** | (13,977) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **69,000** | (12,305) |
| Non-controlling interests | | **66,671** | (1,672) |
| **Profit/(loss) for the period** | | **135,671** | (13,977) |
| Basic and diluted earnings/(loss) per share *(RMB cents)* | *8* | **9.20** | (1.64) |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2020*
*(Expressed in Renminbi)*

| | **Six months ended 30 June 2020** *RMB'000* **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| **Profit/(loss) for the period** | **135,671** | (13,977) |
| **Other comprehensive income for the period (after reclassification adjustments)** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of financial statements of: | | |
| — the associates and joint ventures | **(1,405)** | (275) |
| — the Hong Kong and overseas subsidiaries | **(1,645)** | (389) |
| **Other comprehensive income for the period, net of nil tax** | **(3,050)** | (664) |
| **Total comprehensive income for the period** | **132,621** | (14,641) |
| **Attributable to:** | | |
| Equity shareholders of the Company | **70,492** | (12,086) |
| Non-controlling interests | **62,129** | (2,555) |
| **Total comprehensive income for the period** | **132,621** | (14,641) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2020*
*(Expressed in Renminbi)*

| | Note | At 30 June 2020 RMB'000 (Unaudited) | At 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **56,725** | 57,905 |
| Investment properties | | **20,200** | 20,200 |
| Interest in associates | | **196,994** | 104,141 |
| Interest in joint ventures | | **62,726** | 64,696 |
| Deferred tax assets | | **18,974** | 17,199 |
| Other non-current assets | | **2,165** | 3,464 |
| | | **357,784** | 267,605 |
| **Current assets** | | | |
| Inventories and other contract costs | | **2,214,190** | 2,271,588 |
| Trade and other receivables | *10* | **56,972** | 97,576 |
| Prepaid tax | | **150,809** | 93,959 |
| Pledged and restricted deposits | | **125,792** | 402,964 |
| Cash and cash equivalents | | **436,902** | 731,909 |
| | | **2,984,665** | 3,597,996 |
| **Total assets** | | **3,342,449** | 3,865,601 |
| **Current liabilities** | | | |
| Bank loans | *11* | **254,863** | 313,102 |
| Contract liabilities | | **1,338,720** | 1,923,393 |
| Trade and other payables | *12* | **577,587** | 544,161 |
| Tax payable | | **104,541** | 55,432 |
| | | **2,275,711** | 2,836,088 |
| **Net current assets** | | **708,954** | 761,908 |
| **Total assets less current liabilities** | | **1,066,738** | 1,029,513 |

| | Note | At 30 June 2020 RMB'000 (Unaudited) | At 31 December 2019 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other payables | *12* | **198** | 73,741 |
| Deferred tax liabilities | | **7,489** | 30,889 |
| | | **7,687** | 104,630 |
| **NET ASSETS** | | **1,059,051** | 924,883 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **6,605** | 6,605 |
| Reserves | | **883,671** | 811,632 |
| **Total equity attributable to equity shareholders of the Company** | | **890,276** | 818,237 |
| **Non-controlling interests** | | **168,775** | 106,646 |
| **TOTAL EQUITY** | | **1,059,051** | 924,883 |

# 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 24 August 2020.

## 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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

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 condensed consolidated interim financial information. Other than the amendment to HKFRS 16, 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) Revenue

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

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 2020** *RMB'000* **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Sales of properties: | | |
| — Recognised at a point in time | **606,546** | 17,933 |
| — Recognised over time | **53,841** | 40,256 |
| | **660,387** | 58,189 |
| **Revenue from other sources** | | |
| Gross rentals from properties | **1,210** | 1,227 |
| | **661,597** | 59,416 |

### (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 of 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, other non-current assets and interests in associates and joint ventures ("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 other non-current assets and interests in associates and joint ventures.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **Six months ended 30 June 2020** | Six months ended 30 June 2019 | **At 30 June 2020** | At 31 December 2019 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| Huizhou | **643,492** | 38,820 | **109,322** | 112,734 |
| Tianjin | **18,105** | 20,596 | **30,954** | 31,808 |
| Zhumadian | **—** | — | **104,158** | 104,141 |
| Shenzhen | **—** | — | **92,836** | — |
| Others | **—** | — | **1,540** | 1,723 |
| | **661,597** | 59,416 | **338,810** | 250,406 |

## 5. OTHER NET INCOME

| | **Six months ended 30 June 2020** | Six months ended 30 June 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest income | **3,831** | 7,088 |
| Others | **440** | 671 |
| | **4,271** | 7,759 |

## 6. PROFIT/(LOSS) BEFORE TAXATION

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

### (a) Finance costs

| | **Six months ended 30 June 2020** ***RMB'000*** **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| Interest on bank loans | **9,538** | 13,468 |
| Accrued interest on significant financing component of contract liabilities | **24,489** | 29,551 |
| Others | **1,817** | 1,717 |
| | **35,844** | 44,736 |
| Less: Interest expenses capitalised into inventories | **(31,314)** | (38,961) |
| | **4,530** | 5,775 |

### (b) Staff costs

| | **Six months ended 30 June 2020** ***RMB'000*** **(Unaudited)** | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| Salaries, wages and other benefits | **14,790** | 17,383 |
| Contributions to defined contribution retirement plan | **325** | 979 |
| Equity-settled share-based payment expenses | **1,547** | 1,346 |
| Less: Staff costs capitalised into inventories | **(2,751)** | (4,978) |
| | **13,911** | 14,730 |

### (c) Other items

| | Six months ended 30 June 2020 *RMB'000* (Unaudited) | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| Depreciation | **3,571** | 2,065 |
| Rentals receivables from investment properties | **(250)** | (346) |
| Less: Direct outgoings | **—** | 3 |
| | **(250)** | (343) |

## 7. INCOME TAX

| | Six months ended 30 June 2020 *RMB'000* (Unaudited) | Six months ended 30 June 2019 *RMB'000* (Unaudited) |
|---|---|---|
| **Current tax** | | |
| Provision for Corporate Income Tax ("CIT") | **75,180** | 522 |
| Provision for Land Appreciation Tax ("LAT") | **71,187** | 7,154 |
| Withholding tax | **50** | — |
| | **146,417** | 7,676 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(25,175)** | (113) |
| | **121,242** | 7,563 |

### (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 PRC is 25% during the six months ended 30 June 2020 (six months ended 30 June 2019: 25%).

No provision for Hong Kong Profits Tax was recognised for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 calculated 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, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

## 8. EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

For the six months ended 30 June 2020, the calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB69,000,000 (six months ended 30 June 2019: loss attributable to equity shareholders of the Company of RMB12,305,000) and the weighted average number of 750,000,000 ordinary shares (six months ended 30 June 2019: 750,000,000 shares) in issue during the period.

### (b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the six months ended 30 June 2020 and 2019 were the same as the basic earnings/(loss) per share.

At 30 June 2020, share options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## 9. DIVIDENDS

On 24 August 2020, the Board resolved not to pay an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## 10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2020 *RMB'000* (Unaudited) | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| Trade debtors, net of loss allowance | **314** | 332 |
| Other debtors | **5,038** | 1,890 |
| Financial assets measured at amortised cost | **5,352** | 2,222 |
| Deposits | **5,596** | 10,441 |
| Prepayments | **46,024** | 84,913 |
| | **56,972** | 97,576 |

*Note:*

As at 30 June 2020, the aging analysis of trade debtors, based on the date of the trade debtors recognised, net of allowance for doubtful debts, is as follows:

| | At 30 June 2020 *RMB'000* (Unaudited) | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| Within 1 month | **44** | 62 |
| 1 to 3 months | **90** | 90 |
| 3 to 6 months | **135** | 135 |
| Over 6 months | **45** | 45 |
| | **314** | 332 |

As of 30 June 2020, no trade debtors were past due (31 December 2019: Nil). Based on experience, management believes that no impairment 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 fully recoverable. The Group does not hold any collateral over these balances.

## 11. BANK LOANS

| | At 30 June 2020 *RMB'000* (Unaudited) | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| — Secured | **210,088** | 288,152 |
| — Unsecured | **44,775** | 24,950 |
| | **254,863** | 313,102 |

The secured bank loans are secured by assets as below:

| | At 30 June 2020 *RMB'000* (Unaudited) | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| Inventories | **893,942** | 917,390 |

At 30 June 2020, bank loans were repayable as follows according to the repayment schedules as set out in the loan agreements:

| | At 30 June 2020 *RMB'000* (Unaudited) | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| Within 1 year | **212,113** | 168,462 |
| After 1 year but within 2 years | **42,750** | 123,377 |
| After 2 years but within 5 years | **—** | 21,263 |
| | **254,863** | 313,102 |

Notwithstanding the specified repayment schedules as stated in the 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 ("repayment on demand clause"). Accordingly, all bank loans of the Group were classified as current liabilities in the consolidated statement of financial position.

## 12. TRADE AND OTHER PAYABLES

As of the end of the reporting period, 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 2020** ***RMB'000*** **(Unaudited)** | At 31 December 2019 *RMB'000* (Audited) |
|---|---|---|
| **Current portion:** | | |
| Within 3 months | **52,234** | 173,135 |
| 3 to 6 months | **83** | 1,363 |
| 6 to 12 months | **112,051** | 29 |
| Over 12 months | **12,164** | 13,687 |
| Trade creditors | **176,532** | 188,214 |
| Interest payables | **889** | 1,190 |
| Other payables and accruals | **42,013** | 74,655 |
| Amounts due to related parties | **352,343** | 274,292 |
| Financial liabilities measured at amortised cost | **571,777** | 538,351 |
| Financial guarantee issued | **5,810** | 5,810 |
| | **577,587** | 544,161 |
| **Non-current portion:** | | |
| Amounts due to related parties | **—** | 70,653 |
| Financial guarantee issued | **198** | 3,088 |
| | **198** | 73,741 |
| | **577,785** | 617,902 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

Believe most of us will consider 2020 as an unprecedented tough and difficult year because of the outbreak of the COVID-19 pandemic. Fortunately the situation in mainland China is being stabilised attributable to the decisive efforts of the government in preventing and controlling the virus spreading, resulting that the GDP resumed to a growth rate at approximately 3.2% in the second quarter from a contraction in the first quarter of this year. However, the outbreak of COVID-19 outside China is still intensifying which overcasts shadow of uncertainty on the global economy recovery. Furthermore, the tension between China and the United States of America is escalating from trade to political discrepancies, adding further pressure to the already challenging market environment.

The impact of the pandemic affects all sectors tangibly but relatively more psychologically on the real estate industry. In the first six months of this year, total area of property sold in China has dropped by approximately 8.4% with value of property being sold reduced by approximately 5.4%, as compared with the same period of last year, according to the data released by the National Bureau of Statistics of China. Nevertheless, the Central Government reiterated its persistence to maintain no change in its real estate policy on "houses for living is not for speculation" and the implementation of "city-specific policies" ensuring stable price expectations for promoting stable and healthy development of the property sector.

## BUSINESS REVIEW

The social and market difficulties have not hindered the Group's dedicated efforts in fostering its core business in property development, particularly in the residential market which is backed up by solid customer demand. Furthermore, the Group continues to leverage its established strength in the property development projects in alignment with the Central Government's policy in the development of the Greater Bay Area.

Since the outbreak of the COVID-19, the Group has been implementing effective measures to protect the health and safety of its customers and employees so as to resume and maintain its operation in order to minimise the impact of COVID-19 on project schedules as much as possible. Million Cities Legend Phase 2 was able to complete for delivery during this first half year, contributing greatly to boost the Group's financial results. Hence, the Group's revenue increased to approximately RMB661.6 million with profit for the period of approximately RMB135.7 million, as compared with the revenue of approximately RMB59.4 million and a loss for the period of approximately RMB14.0 million in the same period of last year. Besides, the Group has achieved an aggregated contracted sales value of about RMB560.3 million with a total GFA of approximately 81,000 sq.m. in Huizhou, Tianjin and Henan province during the six months ended 30 June 2020.

## BUSINESS OUTLOOK

The outbreak of COVID-19 is believed to be gradually contained in China under the effective control measures of the government. However, whether there would be a bounce-back followed with a market recovery is still uncertain. Nevertheless, the Group should be on the right track by focusing on the residential property market with rigid housing demand and in the regions with promising government policy support. Hence, the Group will continue to adopt growth strategies in the Greater Bay Area as well as in other provinces with development potential.

It is believed that China's economy is able to demonstrate great resilience and maintain a relatively stable growth with focus shifting to strengthening internal consumption cycle. In order to capture the future opportunities and to create higher value for the shareholders, the Group will adhere to its strategy in acquiring quality land bank at favourable price; controlling strictly the project schedule in converting land reserves into saleable products as well as providing high-quality property products to meet the increasing expectation of real estate customers.

## 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 2020, 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*

During the six months ended 30 June 2020, the Group continued to sell its remaining inventories of Dragon Palace Phase 1 (聚瓏灣一期), which was launched last year. In addition, the Group launched partial pre-sale of Dragon Terrace Phase 2 (玖龍台二期) and Legend Plaza Phase 2 (名座廣場二期) in the second quarter of 2020. Total contracted sales (based on GFA of sales consent), including sales of properties by an associate and a joint venture of the Group, amounted to approximately RMB560.3 million, representing a GFA of approximately 81,000 sq.m. sold during the six months ended 30 June 2020. The Group will continue to focus on the Greater Bay Area, with diversification to other areas in the PRC with potential growth.

*(ii) Land bank*

As at 30 June 2020, the total GFA of the Group's land bank was about 2,334,000 sq.m., out of which (i) about 166,000 sq.m. GFA was unsold or undelivered completed properties projects; (ii) about 1,045,000 sq.m. GFA was under construction; and (iii) about 1,123,000 sq.m. GFA was reserved for future development.

*(iii) Revenue*

During the six months ended 30 June 2020, the Group recorded revenue from sale of properties amounted to approximately RMB660.4 million, representing an increase of approximately RMB602.2 million or 1,034.7% as compared to the same period for the six months ended 30 June 2019. The increase in revenue was mainly due to an increase in overall GFA recognised from approximately 5,800 sq.m. for the six months ended 30 June 2019 to approximately 53,000 sq.m. for the six months ended 30 June 2020. The delivery of Million Cities Legend Phase 2 commenced during the six months ended 30 June 2020.

***Rental income***

Gross rental income from investment properties and inventories has remained virtually the same at RMB1.2 million for the six months ended 30 June 2019 and 30 June 2020.

**Cost of sales**

Cost of sales increased from approximately RMB33.0 million for the six months ended 30 June 2019 to approximately RMB372.0 million for the six months ended 30 June 2020, representing an increase of approximately RMB339.0 million or 1,027.3%. The increase in cost of sales was mainly due to the increase in GFA recognised for the six months ended 30 June 2020.

**Gross profit and gross profit margin**

Gross profit increased from approximately RMB26.4 million for the six months ended 30 June 2019 to approximately RMB289.6 million for the same period in 2020, representing an increase of approximately RMB263.2 million or 997.0%. Gross profit margin decreased by approximately 0.6 percentage points from approximately 44.4% to approximately 43.8% comparing the two periods in 2019 and 2020. Increase in gross profit was in line with the increase in revenue. On the other hand, decrease in gross profit margin was a result of an increase of sales of car parks which is of lower gross profit margin.

**Other net income**

Other net income for the six months ended 30 June 2020 mainly comprised interest income, which amounted to approximately RMB3.8 million. As a result of a lower bank balance from sales proceeds received during the year 2019 and the six months ended 30 June 2020, the Group recorded a decrease in interest income, which in turn resulted in a decrease in other net income by approximately RMB3.5 million or 45.0%.

**Selling expenses**

Selling expenses increased by approximately RMB2.7 million or 135.0% from approximately RMB2.0 million for the six months ended 30 June 2019 to approximately RMB4.7 million for the six months ended 30 June 2020. Since more revenue was recognised during the current period, more sales commission was recognised.

**Administrative expenses**

Administrative expenses decreased by approximately RMB2.6 million or 8.8%, which is caused by a decrease in entertainment and travelling activities during the period.

**Finance costs**

Finance costs decreased by approximately RMB1.3 million or 22.4% from approximately RMB5.8 million for the six months ended 30 June 2019 to approximately RMB4.5 million for the six months ended 30 June 2020, due to the decrease of bank loan balance during the six months ended 30 June 2020.

**Income tax**

For the six months ended 30 June 2020, as a result of more revenue recognised, both land appreciation tax and corporate income tax increased, leading to an increment of approximately 1,503.1% in income tax.

## OTHER FINANCIAL INFORMATION

**Liquidity and financial resources**

For the six months ended 30 June 2020, the Group's cash and cash equivalents were used for developing the Group's development projects, to service the Group's indebtedness and to fund the Group's working capital. The Group finances its funding requirements mainly through a combination of cash generated from operating activities and borrowings. The Group's gearing ratio, calculated at the interest bearing banks loan divided by equity, decreased from approximately 33.9% as at 31 December 2019 to approximately 24.1% as at 30 June 2020, due to repayment of a construction loan.

As at 30 June 2020, the Group had cash and cash equivalents amounting to approximately RMB436.9 million, which were denominated in HKD(18.8%) and RMB(81.2%). As at 30 June 2020, the Group had bank loans balance of approximately RMB254.9 million. The Group had a net cash position of approximately RMB182.0 million.

As at 30 June 2020, the Group's total borrowings were due for repayment as follows:

| | **At 30 June 2020** *RMB'000* | At 31 December 2019 *RMB'000* |
|---|---|---|
| Within one year | **212,113** | 168,462 |
| After one year but within two years | **42,750** | 123,377 |
| After two years but within five years | **—** | 21,263 |
| | **254,863** | 313,102 |

*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 2020, the Group's borrowings were denominated in RMB. The bank loans are interest-bearing at one-year Loan Prime Rate published by People's Bank of China plus 1.2% to 2.125% per annum. (31 December 2019: 110% and 130% of RMB Loan Benchmark Rate or at one-year Loan Prime Rate published by People's Bank of China plus 1.2% per annum).

(c) As at 30 June 2020, the Group's certain borrowings were secured by inventories with a total carrying amount of approximately RMB893.9 million (31 December 2019: RMB917.4million).

**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 are 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 are also adopted to minimise the interest rate risk, credit risk and liquidity risk.

**Foreign currency risk**

The Group mainly operates in Hong Kong and the PRC with majority of the transactions settled in 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 2020 but the Board will continue to closely monitor the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

**Credit risk**

As of 30 June 2020, no 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 2020.

As at 30 June 2020, all the Group's bank balances and deposits were held with major financial institutions in Hong Kong and the PRC 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**

The Group incurred capital expenditures of approximately RMB94.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB1.8 million), which mainly related to the addition of furniture, equipment and interest in associates. These capital expenditures were fully financed by internal resources.

**Capital commitments**

The Group's capital commitments as at 30 June 2020 amounted to approximately RMB677.2 million (31 December 2019: RMB617.9 million) which were mainly related to development costs for the Group's properties under development and equity acquisition.

**Charge on assets**

As at 30 June 2020, the Group's inventories with a total carrying amount of approximately RMB893.9 million (31 December 2019: RMB917.4 million) were pledged to banks to secure certain banking facilities granted to the Group.

**Contingent liabilities**

During the six months ended 30 June 2020, the Group has issued guarantees to banks to secure the mortgage arrangements of certain property buyers. The outstanding guarantees to the banks, amounted to approximately RMB482.7 million as at 30 June 2020 (31 December 2019: RMB765.9 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 by the Directors.

During the six months ended 30 June 2020, the Group provided guarantee to secure the loan borrowed by a joint venture of the Group. The total banking facility secured by this guarantee was approximately RMB1.45 billion (31 December 2019: RMB1.45 billion) and the outstanding loan balance was RMB779.8 million as at 30 June 2020 (31 December 2019: RMB779.9 million). The bank loan is also jointly guaranteed by another shareholder of the joint venture and secured by the inventories of the joint venture.

Deferred income of approximately RMB6.0 million was recognised in respect of this financial guarantee as at 30 June 2020 (31 December 2019: RMB8.9 million).

**Operating segment information**

The Group's revenue and results for the six months ended 30 June 2020 were mainly derived from property development. Performance assessment is based on the results of the Group as a whole. Therefore, management 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 2020, the Group had a total of 144 (31 December 2019: 163) full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2020, the total staff costs, including the directors' emoluments, amounted to approximately RMB16.7 million (six months ended 30 June 2019: RMB19.7 million), of which approximately RMB2.8 million (six months ended 30 June 2019: RMB5.0 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 PRC. 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**

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 2020 (six months ended 30 June 2019: Nil).

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

For the six months ended 30 June 2020, 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 2020.

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 2020.

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 2020.

## 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 Dr. Wu Wing Kuen. 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 principal duties of the audit committee include review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed with the external auditor the interim financial report of the Group for the six months ended 30 June 2020.

## 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 2020 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 non-executive Director*

Hong Kong, 24 August 2020

*As at the date of this announcement, the chairman and non-executive Director is Mr. Wong Ting Chung; the executive Directors are Mr. Lau Ka Keung, Mr. Cheng Kwan Kuen and Ms. Lau Pui Kwan; and the independent non-executive Directors are Mr. Ip Shu Kwan, Stephen, Mr. Li Yinquan and Dr. Wu Wing Kuen.*