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萬城
MILLION CITIES

萬城控股有限公司
MILLION CITIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2892)

**ANNOUNCEMENT OF
UNAUDITED CONSOLIDATED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	Six months ended 30 June		Change	
	2022	2021		%
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	
	(Unaudited)	(Unaudited)		
Revenue	82.0	636.0	-554.0	-87.1%
Gross profit	23.1	147.0	-123.9	-84.3%
Gross profit margin	28.2%	23.1%	N/A	+5.1p.p.
Profit attributable to the equity shareholders of the Company	39.8	119.2	-79.4	-66.6%
Earnings per share — Basic and diluted (<i>RMB cents</i>)	5.31	15.89	-10.58	-66.6%
Interim dividend per share (<i>RMB cents</i>)	—	—	—	N/A

The board (the “**Board**”) of directors (the “**Directors**”) of Million Cities Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2022 together with the comparative figures for 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

(Expressed in Renminbi)

	Note	Six months ended 30 June 2022 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)
Revenue	4	81,967	636,022
Cost of sales		<u>(58,871)</u>	<u>(489,012)</u>
Gross profit		<u>23,096</u>	<u>147,010</u>
Valuation gains on investment properties		—	500
Other net income	5	2,769	2,497
Selling expenses		(6,565)	(27,230)
Administrative expenses		(31,737)	(30,137)
Other expenses		<u>(1,331)</u>	<u>(1,115)</u>
(Loss)/profit from operations		(13,768)	91,525
Finance costs	6(a)	(531)	(23,061)
Share of profits less losses of associates		<u>49,515</u>	<u>100,992</u>
Profit before taxation	6	35,216	169,456
Income tax	7	<u>(2,156)</u>	<u>(41,799)</u>
Profit for the period		<u>33,060</u>	<u>127,657</u>
Attributable to:			
Equity shareholders of the Company		39,798	119,197
Non-controlling interests		<u>(6,738)</u>	<u>8,460</u>
Profit for the period		<u>33,060</u>	<u>127,657</u>
Basic and diluted earnings per share (RMB cents)	8	<u>5.31</u>	<u>15.89</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2022

(Expressed in Renminbi)

	Six months ended 30 June 2022 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)
Profit for the period	33,060	127,657
Other comprehensive income for the period:		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of:		
— the associates	(2,267)	323
— the Hong Kong and overseas subsidiaries	(5,469)	1,471
Other comprehensive income for the period, net of nil tax	(7,736)	1,794
Total comprehensive income for the period	25,324	129,451
Attributable to:		
Equity shareholders of the Company	41,761	118,657
Non-controlling interests	(16,437)	10,794
Total comprehensive income for the period	25,324	129,451

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

(Expressed in Renminbi)

		At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment		51,697	55,192
Investment properties		59,300	59,300
Interest in associates		452,065	403,760
Deferred tax assets		82,433	80,626
Other non-current assets	10	65,390	—
		<u>710,885</u>	<u>598,878</u>
Current assets			
Inventories and other contract costs		1,709,922	1,711,481
Trade and other receivables	11	158,062	134,684
Prepaid tax		56,123	47,721
Structured deposits		—	33,000
Pledged and restricted deposits		62,429	46,782
Cash and cash equivalents		208,818	373,468
		<u>2,195,354</u>	<u>2,347,136</u>
Non-current assets held for sale	12	92,965	92,965
		<u>2,288,319</u>	<u>2,440,101</u>
Total assets		<u>2,999,204</u>	<u>3,038,979</u>
Current liabilities			
Bank loans	13	160,000	322,499
Contract liabilities		409,302	192,362
Trade and other payables	14	820,802	926,045
Lease liabilities		314	485
Tax payable		215,855	228,962
		<u>1,606,273</u>	<u>1,670,353</u>
Net current assets		<u>682,046</u>	<u>769,748</u>
Total assets less current liabilities		<u>1,392,931</u>	<u>1,368,626</u>

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Non-current liabilities		
Lease liabilities	116	181
Deferred tax liabilities	<u>6,081</u>	<u>7,191</u>
	<u>6,197</u>	<u>7,372</u>
NET ASSETS	<u><u>1,386,734</u></u>	<u><u>1,361,254</u></u>
CAPITAL AND RESERVES		
Share capital	6,605	6,605
Reserves	<u>1,129,696</u>	<u>1,087,779</u>
Total equity attributable to equity shareholders of the Company	1,136,301	1,094,384
Non-controlling interests	<u>250,433</u>	<u>266,870</u>
TOTAL EQUITY	<u><u>1,386,734</u></u>	<u><u>1,361,254</u></u>

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 29 August 2022.

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 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements and the measurement of derivative financial instruments. Details of any changes in accounting policies and the measurement of derivative financial instruments 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 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

3 ACCOUNTING POLICIES

(a) Changes in accounting policies

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

- Amendment to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

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

(b) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cashflow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

4. REVENUE AND SEGMENT INFORMATION

(a) Disaggregation of revenue

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

Disaggregation of revenue

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of properties:		
— Recognised at a point in time	67,662	547,732
— Recognised over time	12,715	86,773
	80,377	634,505
Revenue from other sources		
— Gross rentals from properties	1,590	1,517
	81,967	636,022

(b) Operating segment

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

Geographic information

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

	Revenue from external customers		Specified non-current assets	
	Six months ended 30 June 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Huizhou	44,742	101,646	406,184	359,284
Tianjin	37,225	534,376	29,759	30,653
Zhumadian	—	—	126,171	127,261
Others	—	—	948	1,054
	<u>81,967</u>	<u>636,022</u>	<u>563,062</u>	<u>518,252</u>

5. OTHER NET INCOME

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest income	2,408	2,390
Others	361	107
	<u>2,769</u>	<u>2,497</u>

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans	7,987	12,075
Accrued interest on significant financing component of contract liabilities	5,763	33,809
Others	12	1,913
	<u>13,762</u>	<u>47,797</u>
Less: Interest expenses capitalised into inventories	<u>(13,231)</u>	<u>(24,736)</u>
	<u>531</u>	<u>23,061</u>

(b) Staff costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	19,570	19,039
Contributions to defined contribution retirement plan	1,529	1,384
Equity-settled share-based payment expenses	156	633
Less: Staff costs capitalised into inventories	<u>(7,380)</u>	<u>(5,440)</u>
	<u>13,875</u>	<u>15,616</u>

(c) Other items

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation	<u>2,768</u>	<u>3,645</u>
Rentals receivable from investment properties	<u>(410)</u>	<u>(325)</u>

7. INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Provision for Corporate Income Tax (“CIT”)	2,354	24,706
Provision for Land Appreciation Tax (“LAT”)	2,719	27,423
	<u>5,073</u>	<u>52,129</u>
Deferred tax		
Origination and reversal of temporary differences	(2,917)	(10,330)
	<u>(2,917)</u>	<u>(10,330)</u>
	<u>2,156</u>	<u>41,799</u>

(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 2022 (six months ended 30 June 2021: 25%).

No provision for Hong Kong Profits Tax was recognised for the six months ended 30 June 2022 (six months ended 30 June 2021: nil) as the subsidiaries in Hong Kong did not have any assessable profits for the period.

(ii) LAT

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

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

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB39,798,000 (six months ended 30 June 2021: RMB119,197,000) and the weighted average number of 750,000,000 ordinary shares (six months ended 30 June 2021: 750,000,000 ordinary shares) in issue during the six months ended 30 June 2022.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2022 and 2021 were the same as the basic earnings per share.

At 30 June 2022, 14,700,000 share options (31 December 2021: 15,900,000) 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 29 August 2022, the Board resolved not to pay an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10. OTHER NON-CURRENT ASSETS

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

Up to 30 June 2022, the Group has provided a loan of RMB65,390,000 to the Borrower.

11. TRADE AND OTHER RECEIVABLES

As at 30 June 2022, the ageing analysis of trade debtors (which are included in trade and other receivables), and net of allowance, is as follows:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 1 month	1	44
1 to 3 months	4	90
3 to 6 months	12	135
Over 6 months	<u>297</u>	<u>45</u>
Trade debtors, net of loss allowance	314	314
Amounts due from associates (<i>Note (i)</i>)	18,008	18,016
Amounts due from non-controlling interests (<i>Note (i)</i>)	24,565	24,565
Other debtors	<u>69,069</u>	<u>55,353</u>
Financial assets measured at amortised cost	111,956	98,248
Deposits	4,046	3,446
Prepayments (<i>Note (ii)</i>)	<u>42,060</u>	<u>32,990</u>
	<u><u>158,062</u></u>	<u><u>134,684</u></u>

As of 30 June 2022, no trade debts were past due (31 December 2021: 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 to be fully recoverable. The Group does not hold any collateral over these balances.

- (i) The amounts due from associates and non-controlling interests were interest-free, unsecured and recovered within one year.
- (ii) The amounts mainly represented prepaid value added tax and other sales related taxes.

12. NON-CURRENT ASSETS HELD FOR SALE

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

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

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

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

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

As at 30 June 2022, payments made by the JV Partner to the Group amounted to RMB15,000,000.

13. BANK LOANS

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
— Secured	<u>160,000</u>	<u>322,499</u>

The secured bank loans with amount of approximately RMB160,000,000 as at 30 June 2022 and 31 December 2021 were secured by assets below:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Inventories	<u>402,547</u>	<u>424,845</u>

The secured bank loan with the amount of approximately RMB162,499,000 as at 31 December 2021, was secured by trade debtors from sales and leasing of certain properties of the Group. The Group repaid the secured bank loan during the six months ended 30 June 2022.

The Group's banking facilities are subject to the fulfilment of certain covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. There was no breach of covenants as of 30 June 2022 (31 December 2021: nil).

At 30 June 2022, bank loans were repayable as follows according to the repayment schedules as set out in the loan agreements:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 1 year	16,000	164,099
After 1 year but within 2 years	24,000	38,400
After 2 years but within 5 years	<u>120,000</u>	<u>120,000</u>
	<u>160,000</u>	<u>322,499</u>

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

14. TRADE AND OTHER PAYABLES

As at 30 June 2022, 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 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 3 months	291,699	368,954
3 to 6 months	1,385	617
6 to 12 months	502	1,513
Over 12 months	<u>39,195</u>	<u>48,160</u>
Trade creditors	332,781	419,244
Interest payables	—	420
Other payables and accruals	63,773	68,406
Amounts due to related parties (<i>note (i)</i>)	<u>406,470</u>	<u>434,201</u>
Financial liabilities measured at amortised cost	803,024	922,271
Financial guarantee issued (<i>note (ii)</i>)	2,778	3,774
Derivative financial instruments (<i>note 12</i>)	<u>15,000</u>	<u>—</u>
	<u>820,802</u>	<u>926,045</u>

Note:

- (i) Amounts due to related parties are interest-free, unsecured and repayable on demand or expected to be repayable within one year.
- (ii) On 17 March 2021, Huizhou Logan Junhong Real Estate Limited (“Logan Junhong”), the associate of the Group, entered into a loan agreement (“Loan Agreement”) with total banking facility amounted to RMB420,000,000 which was 100% guaranteed by Logan Group Company Limited (“Logan Group”). On 10 May 2021, the Group and Logan Group, entered into a counter-guarantee agreement (“Counter-guarantee”) pursuant to which the Group has agreed, subject to the terms and conditions contained therein to provide a counter-guarantee to Logan Group with regard to the Loan Agreement in proportion to the Group’s respective equity interest in Logan Junhong (30%). As at 30 June 2022, the total bank loan secured by the Counter-guarantee attributable to the Group was RMB108,000,000 (31 December 2021: RMB114,000,000). Deferred income in respect of the financial guarantees issued was RMB2,778,000 (31 December 2021: RMB3,774,000).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2022, overall speaking, the economy was relatively volatile. In late March 2022, due to the impacts from the coronavirus (“COVID-19”) and the conflict in Ukraine, the economy of the People’s Republic of China (the “PRC”) faced downward pressure. As such, the Central Government has accelerated the implementation of various supportive policies and measures to stabilise the economy and achieved positive results: major economic indicators posted narrow declines in May and rebounded in June, resulting that positive economic growth in the second quarter of 2022 was secured. According to the National Bureau of Statistics of China (“NBSC”), the gross domestic product (“GDP”) in the first half of 2022 increased by approximately 2.5% as compared with the same period last year. The steady economic recovery in mainland China within a short period of time demonstrated its strong resilience and potential abilities, as the PRC has striven to maintain momentum of economic growth, aiming for best possible results.

The tightening of regulatory policies and credit environment in the real estate market resulted in credit crisis among enterprises. Since the demand for properties weakened and the market sentiment cooled off rapidly, the real estate industry entered a period of drastic adjustment. According to the NBSC, in the first half of 2022, total sales area of commercial buildings sold amounted to approximately 690.0 million square metres (“sq. m.”), representing a year-on-year decrease of approximately 22.0% as compared with the same period of last year. In terms of monetary value, sales value of commercial buildings amounted to approximately RMB6.6 trillion, representing a year-on-year decrease of approximately 28.9% as compared with the same period of last year. Besides, the total investment in the real estate sector for the first half of 2022 amounted to approximately RMB6.8 trillion, representing a year-on-year decrease of approximately 5.4%.

The Central Government focuses highly on stabilising market, employment and consumption prices as well as further improving the link between the industrial chain and supply chain, in order to facilitate quick resumption of normal operation of the economy. In anticipation of credit crisis in the real estate market, the Central Government reacted promptly. In July 2022, it is reported that multiple real estate projects, which had been suspended or unfinished earlier, have resumed construction. Local governments also introduced measures at varying degrees for easing the real estate market so as to support and satisfy reasonable housing demand. According to the remarks made by Yi Gang, the Governor of the People’s Bank of China, at the G20 Finance Ministers and Central Bank Governors Meeting in July 2022, the PRC’s economy is facing downward pressure due to the outbreak of COVID-19 and external shocks, and the People’s Bank of China will enforce efforts in implementation of steady monetary policy. Accordingly, we believe that the Central Government will continue to focus on boosting the economy and preventing any bursting bubble in the real estate market in the future.

BUSINESS REVIEW

In response to the challenging market environment, the Group continued to adopt a prudent and low-leverage strategy with an emphasis on cash flow management. The Group also strived to remain fully in compliance with the “Three Red Lines” requirements to maintain its competitive advantages.

In the first half of 2022, the Group recorded an approximately 87.1% year-on-year decrease in revenue to approximately RMB82.0 million, which was mainly due to the decrease in income from sale of Million Cities Tycoon Place Phase 3 in Tianjin, Crown Grand Court villas and Million Cities Legend Phase 3 in Huizhou. The revenue for the same period of last year mainly recognised revenue of Million Cities Tycoon Place Phase 4, which was completed for delivery during the six months ended 30 June 2021. Furthermore, share of profits less losses of associates for the six months ended 30 June 2022 decreased by approximately 51.0% as only one project, namely Dragon Terrace Phase 2 in Huizhou, was completed for delivery towards the end of the six months ended 30 June 2022. In comparison, two projects, namely Dragon Terrace Phase 1 in Huizhou and Dragon Palace Phase 1 in Henan province, were completed for delivery during the six months ended 30 June 2021. Accordingly, profit for the period attributable to equity shareholders of the Company decreased to approximately RMB39.8 million in the first half of 2022, representing a year-on-year decrease of approximately 66.6%. In the first half of 2022, the Group achieved total properties contracted sales of approximately RMB307.0 million with a total gross floor area (“GFA”) of approximately 28,000 sq.m., which was mainly attributable to Million Cities Legend Phase 3 and Jade Terrace in Huizhou as well as Dragon Palace Phase 2 in Henan Province.

BUSINESS OUTLOOK

Despite the drastic changes in the business layout of the real estate industry, resulting in lower sales volume, narrow profit margin and exposures in credit risks, we believe that, in the long run, the real estate sector will remain to be an essential industry for satisfying housing demand. The structural decline is unlikely to affect the market substance of the real estate industry. With the development of urbanisation, the rigid demand for basic and improvement housing will remain strong, and will provide favorable development opportunities for healthy real estate enterprises.

As a crucial sector for domestic economic development, the real estate industry has to be managed in a stable manner. As such, the government authorities launched a series of policies in 2022 to provide guidance for the stable development of the real estate market. Several revitalisation measures were introduced in Huizhou, where the real estate business of the Group mainly focuses on. The implementation of policies, such as Huizhou’s Key Working Arrangements for Promoting the Construction of the GBA in 2022 (《惠州市推進粵港澳大灣區建設2022年主要工作安排》) and the Notice on Promoting the Healthy Development and Virtuous Cycle of the Real Estate Industry (《關於促進房地產業健康發展和循環的通知》), also known as the Six Measures for Huizhou (惠6條), formulates a solid foundation for the favorable development of the real estate industry of Huizhou in the future and reinforce the development strategies of the Group for consolidating its deployment in Huizhou while focusing on the Greater Bay Area (including Hong Kong). In the future, the Group will continuously keep abreast of policy and market development in order to create sophisticated products and uphold its brand value.

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

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 2022, 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 2022, the Group continued the pre-sale of Jade Terrace Phases 1 and 2 (玖瓏台一、二期), Million Cities Legend Phase 3 (萬城名座三期), Dragon Palace Phase 1 section 3, Phase 2 Section 4 and Section 5 (聚瓏灣一期第三標段、二期第四標段及第五標段), Legend Plaza (名座廣場) as well as the sale of Million Cities Tycoon Place Phase 3 (萬城聚豪三期) and the villas of Crown Grand Court (皇冠豪苑別墅). Total properties contracted sales (based on GFA of sales consent), including sale of properties by the associates of the Group, amounted to approximately RMB307.0 million, representing a GFA of approximately 28,000 sq.m. sold during the six months ended 30 June 2022.

(ii) Land bank

As at 30 June 2022, the total GFA of the Group’s land bank was about 1,638,500 sq.m., out of which (i) about 303,300 sq.m. GFA was unsold completed properties projects; (ii) about 318,400 sq.m. GFA was unsold and under construction; and (iii) about 1,016,800 sq.m. GFA was reserved for future development.

Revenue

Revenue from sale of properties for the six months ended 30 June 2022 amounted to approximately RMB80.4 million, as compared with approximately RMB634.5 million reported for the six months ended 30 June 2021, representing a decrease by approximately 87.3%. Revenue recognised for the six months ended 30 June 2022 was mainly contributed by Million Cities Tycoon Place Phase 3 (萬城聚豪三期), the villas of Crown Grand Court (皇冠豪苑別墅) and overtime recognised revenue of Million Cities Legend Phase 3 (萬城名座三期), which was lower than that for the six months ended 30 June 2021 as it mainly recognised revenue of Million Cities Tycoon Place Phase 4 (萬城聚豪四期) which was completed and delivered during the six months ended 30 June 2021.

Rental income

Gross rental income from investment properties and inventories for the six months ended 30 June 2022 was approximately RMB1.6 million, as compared with approximately RMB1.5 million reported for the six months ended 30 June 2021, representing an increase by 4.8%. The increase in gross rental income was mainly due to the increase in rental income from the car parks and investment properties for the six months ended 30 June 2022.

Cost of sales

Cost of sales for the six months ended 30 June 2022 was approximately RMB58.9 million, as compared with approximately RMB489.0 million reported for the six months ended 30 June 2021, representing a decrease by approximately 88.0%. The decrease in cost of sales was mainly due to the proportional decrease in revenue from sale of properties.

Gross profit and gross profit margin

The gross profit for the six months ended 30 June 2022 was approximately RMB23.1 million, representing a decrease by approximately 84.3%, as compared with the same period last year of approximately RMB147.0 million. The decrease in gross profit was mainly due to decrease of revenue.

The gross profit margin for the six months ended 30 June 2022 was increased to approximately 28.2% (six months ended 30 June 2021: 23.1%). The increase was mainly due to higher gross profit margin achieved by the Huizhou projects, as compared with the project in Tianjin, attributable to different sales and costs structures in different locations.

Valuation gains on investment properties

There was no valuation gains on investment properties for the six months ended 30 June 2022, and valuation gains on investment properties for the six months ended 30 June 2021 amounted to RMB0.5 million.

Other net income

Other net income for the six months ended 30 June 2022 was approximately RMB2.8 million, as compared with approximately RMB2.5 million for the six months ended 30 June 2021, representing an increase by approximately 10.9%, which was mainly due to the increase in interest income during the six months ended 30 June 2022.

Selling expenses

Selling expenses for the six months ended 30 June 2022 were approximately RMB6.6 million, as compared with approximately RMB27.2 million reported for the six months ended 30 June 2021, representing a decrease by approximately 75.9%. The decrease in selling expenses was mainly due to (i) decrease in sale of properties; and (ii) lower commission incurred for the sale of the Huizhou projects.

Administrative expenses

Administrative expenses for the six months ended 30 June 2022 were approximately RMB31.7 million, as compared with approximately RMB30.1 million reported for the six months ended 30 June 2021, representing an increase approximately 5.3%.

Share of profits less losses of associates

Share of profits less losses of associates amounted to approximately RMB49.5 million for the six months ended 30 June 2022, as compared with approximately RMB101.0 million for the six months ended 30 June 2021, representing a decrease by approximately 51.0% as only one project, namely Dragon Terrace Phase 2 in Huizhou, was completed for and delivered by the end of 30 June 2022. In comparison, two projects, namely Dragon Terrace Phase 1 in Huizhou and Dragon Palace Phase 1 in Henan province, were completed and delivered for the six months ended 30 June 2021.

Finance costs

Finance costs for the six months ended 30 June 2022 were approximately RMB0.5 million, as compared with approximately RMB23.1 million for the six months ended 30 June 2021, representing a decrease by approximately 97.7% due to (i) the recognition of significant financing component costs incurred from the delivery of Million Cities Tycoon Place Phase 4 during the period between completion of such project in January 2021 and delivery thereof in May 2021. No such significant financing component costs incurred for the six months ended 30 June 2022; and (ii) the repayment of a bank loan of approximately RMB160.0 million for the six months ended 30 June 2022.

Income tax

For the six months ended 30 June 2022, income tax was approximately RMB2.2 million, representing a decrease of approximately RMB39.6 million, as compared with income tax of approximately RMB41.8 million for the six months ended 30 June 2021, mainly due to the decrease in profit from operations.

Profit for the period attributable to equity shareholders of the Company

Profit for the period attributable to equity shareholders of the Company for the six months ended 30 June 2022 was approximately RMB39.8 million, representing a decrease of approximately RMB79.4 million or approximately 66.6%, as compared with that of the six months ended 30 June 2021. Such decrease was mainly due to the decrease in profits from subsidiaries and share of profits less losses of associates of the Group for the six months ended 30 June 2022 as mentioned above.

OTHER FINANCIAL INFORMATION

Liquidity and financial resources

For the six months ended 30 June 2022, the Group's cash and cash equivalents were mainly used in the Group's business operations, to service the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of cash generated from operating activities and borrowings. The Group's gearing ratio as at 30 June 2022 was approximately 11.5%, as compared with approximately 23.7% as at 31 December 2021. Such decrease was mainly due to the repayment of bank loans during the six months ended 30 June 2022.

The gearing ratio is calculated as interest bearing bank loans divided by equity.

As at 30 June 2022, the Group's cash and cash equivalents, amounting to approximately RMB208.8 million, were denominated in HK\$(23.8%) and RMB(76.2%).

As at 30 June 2022, the Group's bank loans were due for repayment as follows:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within one year	16,000	164,099
After one year but within two years	24,000	38,400
After two years but within five years	<u>120,000</u>	<u>120,000</u>
	<u>160,000</u>	<u>322,499</u>

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 2022, the Group's borrowings were denominated in RMB. The bank loans are interest-bearing at one-year Loan Prime Rate (“LPR”) published by the People's Bank of China plus 1.95% per annum (31 December 2021: one-year LPR plus 1.25% to 1.95% per annum).
- (c) As at 30 June 2022, the Group's certain borrowings were secured by inventories with a total carrying amount of approximately RMB402.5 million (31 December 2021: RMB424.8 million).

Financial risk management objectives and policies

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

Foreign currency risk

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

Interest rate risk

The Group's interest rate risk arises primarily from borrowings and cash at bank. Borrowings and cash at bank issued at variable rates expose the Group to cash flow interest rate risk, and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against interest rate risk for the six months ended 30 June 2022, but the Board will continue monitoring the Group's loan portfolio closely in order to manage the Group's interest rate risk exposure.

Credit risk

As of 30 June 2022, no material trade debtors of the Group were past due. The Group normally receives full payment from buyers before the delivery of the property. For mortgage sales without full settlement, the Group would not deliver the property to the customers unless it obtains confirmation from the banks providing mortgage that the respective mortgages have been approved. In addition, the Group would not transfer titles of the properties to customers until full amount of sales proceeds are received. Accordingly, the Group is of the view that the expected irrecoverable trade debtors were immaterial. Thus, no bad debt provision for trade debtors was recognised during the six months ended 30 June 2022.

As at 30 June 2022, 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

During the six months ended 30 June 2022, the Group had no capital expenditures (six months ended 30 June 2021: RMB4.4 million).

Capital commitments

The Group's capital commitments as at 30 June 2022 amounted to approximately RMB79.4 million (31 December 2021: RMB155.40 million) which were mainly related to development costs for the Group's properties under development.

Charge on assets

As at 30 June 2022, the Group's inventories with a total carrying amount of approximately RMB402.5 million (31 December 2021: RMB424.8 million) were pledged to banks to secure certain banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2022, 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 RMB339.7 million as at 30 June 2022 (31 December 2021: RMB223.0 million), will be terminated upon completion of transferring the legal title of the properties to the property buyers. The Directors consider loss arising from these guarantees as a result of default payment by customers to be insignificant, as the banks have the rights to sell the properties and recover the outstanding loan balance from sale proceeds.

The Group has not recognised any deferred income in respect of these guarantees as their fair values are considered to be insignificant.

Operating segment information

The Group's revenue and results for the six months ended 30 June 2022 were mainly derived from property development. Performance assessment is based on the results of the Group as a whole. Therefore, management of the Group considers there is only one operating segment.

Events after balance sheet date

The Group had no significant events after balance sheet date.

HUMAN RESOURCES

Human resources and emolument policy

As at 30 June 2022, the Group had a total of 173 (31 December 2021: 200) full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2022, the total staff costs, including the directors' emoluments, amounted to approximately RMB21.3 million (six months ended 30 June 2021: RMB21.1 million), of which approximately RMB7.4 million (six months ended 30 June 2021: RMB5.4 million) were capitalised into inventories.

The Group's emolument policies are formulated based on the performance and experience of individual employee and are in line with the salary trends in Hong Kong and the 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 of Directors and senior management

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

INTERIM DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

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

For the six months ended 30 June 2022, 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 2022.

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 2022.

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 2022.

AUDIT COMMITTEE

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

The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, to oversee the audit process, to develop and review the policies and to perform other duties and responsibilities as assigned by the Board. The audit committee has reviewed with the external auditor the interim financial report of the Group for the six months ended 30 June 2022.

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 2022 will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 29 August 2022

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