ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1064)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 (the "Interim Results"), together with the comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	*(Unaudited)*
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**26,766**	24,047
Other income		**218**	219
Administrative expenses		**(14,386)**	(14,130)
Finance costs	3	**(3,128)**	(3,500)
PROFIT BEFORE TAX	4	**9,470**	6,636
Income tax expense	5	**(4,204)**	(3,521)
PROFIT FOR THE PERIOD		**5,266**	3,115
ATTRIBUTABLE TO:			
Ordinary equity holders of the Company		**525**	(1,172)
Non-controlling interests		**4,741**	4,287
		5,266	3,115
PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		**HK0.09 cents**	HK(0.19) cents
– Diluted		**HK0.09 cents**	HK(0.19) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Profit for the period	**5,266**	3,115
Other comprehensive expense		
Other comprehensive expense to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(27,066)**	(53,293)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	**(21,800)**	(50,178)
Total comprehensive expense attributable to:		
Ordinary equity holders of the Company	**(7,593)**	(17,088)
Non-controlling interests	**(14,207)**	(33,090)
	(21,800)	(50,178)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019** ***(Unaudited)*** ***HK$'000***	31 December 2018 *(Audited)* *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**4,390**	4,559
Right-of-use assets		**2,251**	–
Investment properties		**4,303,044**	4,340,790
Total non-current assets		**4,309,685**	4,345,349
CURRENT ASSETS			
Properties held for sales		**35,448**	35,759
Trade receivables	8	**19,789**	9,433
Prepayments, deposits and other receivables		**14,864**	13,209
Cash and bank balances		**82,400**	91,511
Total current assets		**152,501**	149,912
CURRENT LIABILITIES			
Trade payables	9	**(1,991)**	(2,008)
Other payables and accruals		**(48,710)**	(46,026)
Tax payable		**(54,206)**	(52,448)
Interest-bearing bank and other borrowings		**(5,805)**	(7,137)
Total current liabilities		**(110,712)**	(107,619)
NET CURRENT ASSETS		**41,789**	42,293
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,351,474**	4,387,642
NON-CURRENT LIABILITIES			
Loan from a director		**(72,937)**	(73,577)
Due to a director		**(177,838)**	(183,382)
Long term other payables		**(132,719)**	(133,645)
Deferred tax liabilities		**(932,358)**	(939,744)
Total non-current liabilities		**(1,315,852)**	(1,330,348)
Net assets		**3,035,622**	3,057,294
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**15,140**	15,140
Reserves		**859,931**	867,396
		875,071	882,536
Non-controlling interests		**2,160,551**	2,174,758
Total equity		**3,035,622**	3,057,294

Notes:

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standards ("HKAS") 34 – *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

The condensed consolidated financial statements have been prepared under the historical cost convention, except for the investment properties that are measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new and revised standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Other than as explained below regarding the impact of HKFRS 16 – *Leases*, the new and revised HKFRSs has had no significant financial impact on these financial statements. The nature and impact of the HKFRS 16 are described as below:

(a) HKFRS 16 replaces HKAS 17 – *Leases*, HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

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

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

	Increase/ (decrease) *HK$'000* *(Unaudited)*
Assets	
Increase in right-of-use assets	3,290
Increase in total assets	3,290
Liabilities	
Increase in interest-bearing bank and other borrowings	3,162
Increase in total liabilities	3,162
Increase in retained earnings	128

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

	HK$'000 *(Unaudited)*
Operating lease commitments as at 31 December 2018	3,587
Weighted average incremental borrowing rate as at 1 January 2019	5.88%
Lease liabilities/discounted operating lease commitments as at 1 January 2019	3,162

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss.

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank and other borrowings"), and the movement during the period are as follow:

	Land and buildings included in Right-of-use asset	**Lease liabilities**
	HK$'000	*HK$'000*
As at 1 January 2019	**3,290**	3,162
Depreciation charge	**(1,039)**	–
Interest expense	**–**	81
Payments	**–**	(1,104)
As at 30 June 2019	**2,251**	2,139

The Group recognised rental expenses for short-term leases of HK$109,000 for the six months ended 30 June 2019.

2. OPERATING SEGMENT INFORMATION

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

(a) the property investment segment, which invests in properties located in Mainland of the People's Republic of China ("Mainland China") for generating potential income from letting; and

(b) the corporate and other segment, which provides management services to group companies.

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2018.

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

The following table presents revenue and results information for the Group's operating segments:

For the six months ended 30 June

	Property investment		Corporate and others		Total	
	2019	2018	**2019**	2018	**2019**	2018
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**26,766**	24,047	**–**	–	**26,766**	24,047
Segment results	**19,765**	17,475	**(7,385)**	(7,558)	**12,380**	9,917
Other income					**218**	219
Finance costs					**(3,128)**	(3,500)
Profit before tax					**9,470**	6,636
Income tax expense					**(4,204)**	(3,521)
Profit the period					**5,266**	3,115

Information about major customers

For the six months ended 30 June 2019 (the "Period"), aggregate revenue from four customers (2018: four) with each of whom transactions had exceeded 10% of the Group's total revenue amounted to approximately HK$26,766,000 (2018: HK$24,047,000).

3. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interest on:		
Bank loans	**170**	422
Lease liabilities	**81**	–
Loan from a director	**2,877**	3,078
	3,128	3,500

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**130**	139
Depreciation of right-of-use assets	**1,039**	**–**
Interest income	**(123)**	(117)
Income from letting of investment properties	**(26,766)**	(24,047)

5. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current-elsewhere		
Charge for the period	**3,395**	3,521
Deferred	**809**	–
	4,204	3,521

No provision for Hong Kong profits tax had been made as the Group did not generate any taxable profits in Hong Kong during the Period (2018: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The subsidiaries established in Mainland China are subject to income taxes at the rate of 25% (2018: 25%).

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2018: Nil).

7. PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic profit/(loss) per share for the Period is based on the profit attributable to ordinary equity holders of the Company of HK$525,000 (2018: loss of HK$1,172,000) and the weighted average number of 605,616,520 (2018: 605,616,520) ordinary shares in issue during the Period.

During the six months ended 30 June 2019 and 2018, the Group had no potentially dilutive ordinary shares in issue.

8. TRADE RECEIVABLES

An ageing analysis of the Group's trade receivables at the end of the reporting period is as follows:

	30 June 2019		31 December 2018	
	(Unaudited)		*(Audited)*	
	HK$'000	*%*	*HK$'000*	*%*
Within 6 months	**17,509**	**88**	9,433	100
More than 6 months	**2,280**	**12**	–	–
	19,789	**100**	9,433	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

9. TRADE PAYABLES

An ageing analysis of the Group's trade payables at the end of the reporting period is as follows:

	30 June 2019		31 December 2018	
	(Unaudited)		*(Audited)*	
	HK$'000	*%*	*HK$'000*	*%*
More than 1 year	**1,991**	**100**	2,008	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

REVIEW OF RESULTS

The Group's consolidated turnover for the Period was HK$26,766,000, representing an increases of approximately 11% compared with the turnover for the same period last year (30 June 2018: HK$24,047,000). The Group's profit for the Period was HK$5,266,000 (30 June 2018: HK$3,115,000). The Group's profit attributable to equity shareholders was HK$525,000 for the Period (30 June 2018: loss of HK$1,172,000).

BUSINESS REVIEW

The Company is an investment holding company. The subsidiaries within the Group are principally engaged in property development, investment and management businesses in Mainland China and have two property interests, one in Chongqing (重慶市) and the other in Guangzhou (廣州市).

Guang Yu Square (港渝廣場), a 15-storey commercial building, is situated at the most prime commercial area at Chaotianmen (朝天門), Yuzhong District (渝中區), Chongqing (重慶市). Chaotianmen is one of the major clothing wholesale points in Chongqing while Guang Yu Square is the most popular men's clothing and footwear wholesale centre in the region. In recent years, most wholesale outlets in Guang Yu Square welcomed walk-in shoppers and extended their business hours till early evening. Most commercial premises in Guang Yu Square owned by the Group are fully let.

The property interest in Guangzhou (廣州市) is situated at the most prime commercial area in Yuexiu District (越秀區), Guangzhou. It is comprised of three contiguous land parcels located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Road (謝恩里), Yuexiu District and is wholly owned by Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司) ("Guangzhou Zheng Da") which in turn Zheng Da Real Estate Development Co. Ltd. ("HK Zheng Da"), a private company incorporated in Hong Kong, has 100% interest.

Guangzhou Zheng Da was set up as a Sino-foreign joint venture by HK Zheng Da as the foreign partner and 越秀房地產開發經營公司 ("越秀國企"), a state-owned enterprise, as the Sino partner in Guangzhou in December 1993. Since its formation, 越秀國企 has not provided any capital or management support to Guangzhou Zheng Da to a material extent. Pursuant to the terms of the Enforcement Rules of the Joint Venture Agreement (合作合同實施細則) (the "Enforcement Rules") executed in 1994, 越秀國企 agreed to surrender its entire interest in Guangzhou Zheng Da except those benefits specified in the Enforcement Rules and therefore HK Zheng Da assumed 100% interest in Guangzhou Zheng Da.

The Group acquired a 25% indirect interest in HK Zheng Da in December 2007 while the remaining 75% interest to be completed by the Group not later than 30 June 2020 at an aggregate consideration of RMB1,361,100,000 (approximately HK$1,551,654,000 as at 30 June 2019). Details of the intended acquisition, including terms and conditions, consideration and settlement mechanism, and their amendments thereafter were disclosed in the Company's circular dated 26 November 2007 and the Company's subsequent announcements, latest of which dated 18 June 2019 (primarily refers to the deferment of the long stop date for completion of the acquisition from 30 June 2019 to 30 June 2020).

The development project was initially planned to be completed within a period of 15 years but its progress was interrupted by the modifications of municipal planning in the region by the Yiuxiu District People's Government (越秀區人民政府) from time to time in the past years. Pursuant to the terms of the relevant joint venture agreement, the joint venture period of Guangzhou Zheng Da is from 31 December 1993 to 31 December 2008 and can be further extended at the request of either foreign or sino partner upon maturity. In December 2008, both Guangzhou Zheng Da and its foreign partner, HK Zheng Da, agreed to extend the joint venture period by 15 years with effect from 1 January 2009 in accordance with the provisions of the articles of Guangzhou Zheng Da but 越秀國企, its sino partner, had become dormant a couple of years ago and therefore its consent could not be obtained. Contemporaneously, it appeared that another enterprise namely 越秀房地產開發經營有限公司 ("越房私企"), a privately owned enterprise which acquired certain assets (but interest in Guangzhou Zheng Da not included) from 越秀國企 some years ago, claimed that it had taken up certain interest in Guangzhou Zheng Da from 越秀國企, but that was not the case. As such, In late December 2008, Guangzhou Zheng Da, served a writ against 越房私企 at the Guangdong Provincial Guangzhou Municipal Yuexiu District People's Court (廣東省廣州市越秀區人民法院) (the "Yuexiu Court") demanding for the confirmation of disqualification of 越房私企 from the sino partnership (if any) of the subject joint venture.

The relevant judgment was granted in July 2009 with rulings endorsing the request made by Guangzhou Zheng Da, 越房私企 then filed an appeal petition (the "Appeal") at the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") in August 2009. An hearing was made in October 2009 and no further hearings had been made since then. Both Guangzhou Zheng Da and HK Zheng Da have not yet received a valid judgement in writing issued by the Guangzhou Court in accordance with the relevant PRC laws and due judicial procedures. Since then, both Guangzhou Zheng Da and HK Zheng Da had dialogues with the relevant court officials from time to time and are looking forward to receiving a formal and legally valid verdict, notice or directive in relation to the Appeal to be granted by the Guangzhou Court or its higher court in accordance with the relevant PRC laws and due judicial procedures, but no such verdict or directive in proper manner was received up to the date of this announcement. Taking into account the rulings granted by the Yuexiu Court in July 2009, the facts and legal grounds substantiated at the first hearing of the Appeal, and the opinion given by the PRC legal counsels and advisors, the Group remains optimistic in obtaining a favourable judgement in the Appeal. Details of the developments of the Appeal were disclosed in the Company's annual report for the year ended 31 December 2018.

Pending for re-developing into a commercial complex, the development site was previously comprised of a 2-storey non-permanent commercial podium and a car park for loading and offloading inventory but its operation ceased in August 2019. With a history of over one century for footwear wholesale business in the area surrounding the development site, the commercial podium was once the most popular footwear boutique showcase and wholesale centre in Guangzhou.

Following the closure of the wholesale business at the site, the non-permanent commercial podium will be demolished for re-development. It is planned that the development site will be developed into a versatile grade A commercial building complex with wholesale and exhibition hall facilities and with an objective to be the landmark of the Yuexiu District. It is the present intention of the Group that the new commercial building complex, if completed, will be held for earning rentals and capital appreciation purposes. The Directors expect that the re-development will take about four years and the construction costs will be primarily financed by new investors or business partners and borrowings.

Notwithstanding the property interest in Guangzhou will cease to contribute material revenue to the Group in the coming four years, the Directors expect that the Group's profit before tax will not be materially affected because the subject asset will remain as an investment property under Hong Kong Accounting Standard 40 – *Investment Property* and be measured at fair value with changes in fair value recognised in the Group's consolidated income statement every financial year thereafter.

FINANCIAL REVIEW

Liquidity and financial resources

The Group generally financed its businesses with internally generated cash flows and banking facilities during the Period. Cash and bank balances of the Group as at 30 June 2019 amounted to HK$82,400,000 (31 December 2018: HK$91,511,000). As at 30 June 2019 and 31 December 2018, there were no pledged deposits.

As at 30 June 2019, the Group had outstanding borrowings of approximately HK$78,742,000 (31 December 2018: HK$80,714,000) comprising interest-bearing bank loans amounted to HK$3,666,000 (31 December 2018: HK$7,137,000), lease liability of HK$2,139,000 (31 December 2018: nil) and a loan from a director amounted to HK$72,937,000 (31 December 2018: HK$73,577,000). The Group's interest-bearing bank loans were repayable within one year or on demand.

As at 30 June 2019, the secured bank loan of HK$3,666,000 (31 December 2018: HK$7,137,000) of the Group bore interest at floating interest rate, which was entirely denominated in Renminbi ("RMB").

The Group's gearing ratio as at 30 June 2019 was 0.02 (31 December 2018: 0.02), calculated based on the Group's interest-bearing bank and other borrowings and loan from a director of HK$78,742,000 (31 December 2018: HK$80,714,000) over total assets of HK$4,462,186,000 (31 December 2018: HK$4,495,261,000). The Group's gearing was maintained at a relatively low level during the Period.

Currency structure

The Company's consolidated financial statements are presented in Hong Kong dollars notwithstanding the financial statements of all its operating subsidiaries are presented in Renminbi ("RMB"). Exchange exposure may arise when the revenue, expenses, non-monetary items, assets and liabilities of these operating subsidiaries booked in RMB are converted into Hong Kong dollars on consolidations at the Company's group account level. Given the exchange rates between RMB and Hong Kong dollars were relatively stable during the Period, the Group had limited exposure to foreign exchange fluctuations throughout the period.

Pledge of assets

The Group had utilized bank loan facilities amounting to approximately HK$3,666,000 (31 December 2018: HK$7,137,000) as at 30 June 2019. Certain investment properties and trade receivables of the Group were pledged to secure banking facilities utilised by the Group and an independent third party. In addition, the Company and one of its substantial shareholders also granted guarantees to these banking facilities.

Contingent liabilities

As at 30 June 2019, guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties amounted to HK$139,000 (31 December 2018: HK$139,000).

EMPLOYEES AND REMUNERATION POLICY

The total staff cost for the Period was approximately HK$4.4 million. The Group employed about 30 full time staff in Hong Kong, Chongqing and Guangzhou as at 30 June 2019. Employees are remunerated according to the nature of their job and market trend, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Chongqing and Guangzhou, the Group provided staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits included medical schemes, Mandatory Provident Fund Scheme and employee share option scheme.

OUTLOOK

It is expected that the Sino-US trade talks will not draw to a fruitful consensus in the foreseeable future, and hence both the export and domestic economic growth in Mainland China are expected to remain stringent in latter half year. The market therefore perceives that the Chinese Central Government will further ease the money liquidity and launch new measures to boost up both the domestic consumption and investment sentiment. The Directors cautiously foresee that the benchmark interest rates in Mainland China will be further reduced marginally as well as Renminbi will remain soft in latter half year and this may help to reduce the Group's borrowing costs.

The “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area” promulgated by the State Council of China in mid-February 2019 maps out the current and future co-operation and development of the Greater Bay Area for the period from now to 2022 in the immediate term and extending to 2035 in the long term. It is anticipated that both Guangzhou and Hong Kong will benefit and become world-class city cluster in coming years. The recent social unrest in Hong Kong will not impair the Directors' confidence in Hong Kong's future because it is generally believed that the uphold of the “One Country Two System” (捍衛一國兩制) is the best and only cornerstone (最佳及唯一基石) for safeguarding all stakeholders' interest in Hong Kong. The Directors love China and Hong Kong (愛國愛港) and support the Government to administer Hong Kong in accordance with the Basic Law (支持香港特區政府依法施政).

China will celebrate its 70th national day this year and the Directors bless China having a prosper and harmonious future (國運昌隆，民安國泰). In order to support the Pan-Guangzhou Re-Development and Upgrade Programme of Aged Communities (廣州市老城區改造提升工程) promulgated by the Guangzhou Municipal Government, the Group accelerates the re-development schedule of the Guangzhou project this summer and expect that the re-development layout plan (報建規劃方案) will be granted by the Yiuxiu Regional Government next year. Meantime, the Directors will keep on an optimistic approach in diversifying the Group's businesses to tap the opportunities and challenges in the Greater Bay Area and the Belt and Road Initiative.

With strong assets backing and extremely low gearing ratio for the Group's financial position, the Group may take these advantages to explore new business opportunities in 2019 and 2020. The Directors will also strengthen its management expertise and redeploy the Group's resources for meeting these new challenges.

Looking ahead, the Directors are optimistic and confident about the economic prosperity in China (including Hong Kong) as well as the Group's future prospects in the long run.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules from time to time throughout the Period, except for the following deviation:

Code Provision A.4.2

The second part of Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Managing Director of the Company, though without a specific term, had retired and voluntarily offered himself for re-election at general meetings in the past years. The Directors consider that this practice, though is voluntary by nature, is in line with the spirit of the Code's practice.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by its directors. Having made specific enquiry of the Directors, the Company confirmed that the Directors had complied with required standard set out in the Model Code throughout the accounting period covered by the Company's interim report.

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

REVIEW BY AUDIT COMMITTEE

The Interim Results had been reviewed by the Audit Committee of the Company.

PUBLICATION OF THE INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Company's interim report for the six months ended 30 June 2019 will be despatched to shareholders and will be published on the website of Hong Kong Exchange and Clearing Limited (www.hkex.com.hk) as well as the website of the Company (www.zhonghuagroup.com) as soon as practicable.

By order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 22 August 2019

As at the date of this announcement, the board of directors of the Company comprises: (i) Ho Kam Hung as executive director; (ii) Young Kwok Sui as non-executive director; and (iii) Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai as independent non-executive directors.