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 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change	
	2021	2020		
	RMB'million	*RMB'million*	*RMB'million*	*%*
	(Unaudited)	(Unaudited)		
Revenue	**636.0**	661.6	–25.6	–3.9%
Gross profit	**147.0**	289.6	–142.6	–49.2%
Gross profit margin	**23.1%**	43.8%	N/A	–20.7p.p.
Profit attributable to equity shareholders of the Company	**119.2**	69.0	+50.2	+72.7%
Net profit margin	**18.7%**	10.4%	N/A	+8.3p.p.
Earnings per share — Basic and diluted *(RMB cents)*	**15.89**	9.20	6.69	+72.7%
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 2021 together with the comparative figures for 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2021
(Expressed in Renminbi)

	Note	**Six months ended 30 June 2021** *RMB'000* **(Unaudited)**	Six months ended 30 June 2020 *RMB'000* (Unaudited)
Revenue	*4*	**636,022**	661,597
Cost of sales		**(489,012)**	(371,994)
Gross profit		**147,010**	289,603
Valuation gains on investment properties		**500**	—
Other net income	*5*	**2,497**	4,271
Selling expenses		**(27,230)**	(4,658)
Administrative expenses		**(30,137)**	(27,088)
Other expenses		**(1,115)**	(1,559)
Profit from operations		**91,525**	260,569
Finance costs	*6(a)*	**(23,061)**	(4,530)
Share of profits less losses of associates		**100,992**	(45)
Share of profits less losses of joint ventures		**—**	919
Profit before taxation	*6*	**169,456**	256,913
Income tax	*7*	**(41,799)**	(121,242)
Profit for the period		**127,657**	135,671
Attributable to:			
Equity shareholders of the Company		**119,197**	69,000
Non-controlling interests		**8,460**	66,671
Profit for the period		**127,657**	135,671
Basic and diluted earnings per share *(RMB cents)*	*8*	**15.89**	9.20

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2021
(Expressed in Renminbi)

	Six months ended 30 June 2021 *RMB'000* (Unaudited)	Six months ended 30 June 2020 *RMB'000* (Unaudited)
Profit for the period	**127,657**	135,671
Other comprehensive income for the period (after reclassification adjustments):		
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of:		
— the associates and joint ventures	**323**	(1,405)
— the Hong Kong and overseas subsidiaries	**1,471**	(1,645)
Other comprehensive income for the period, net of nil tax	**1,794**	(3,050)
Total comprehensive income for the period	**129,451**	132,621
Attributable to:		
Equity shareholders of the Company	**118,657**	70,492
Non-controlling interests	**10,794**	62,129
Total comprehensive income for the period	**129,451**	132,621

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

(Expressed in Renminbi)

	Note	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**58,193**	57,722
Investment properties		**20,700**	20,200
Interest in associates		**519,004**	415,383
Deferred tax assets		**70,900**	71,655
Other non-current assets		**—**	866
		668,797	565,826
Current assets			
Inventories and other contract costs		**2,005,513**	2,205,710
Trade and other receivables	*10*	**116,448**	81,248
Prepaid tax		**74,508**	71,550
Pledged and restricted deposits		**86,225**	107,296
Cash and cash equivalents		**407,680**	366,309
		2,690,374	2,832,113
Total assets		**3,359,171**	3,397,939
Current liabilities			
Bank loans	*11*	**341,446**	368,537
Contract liabilities		**596,073**	945,939
Trade and other payables	*12*	**904,001**	719,193
Lease liabilities		**503**	474
Tax payable		**214,496**	190,664
		2,056,519	2,224,807
Net current assets		**633,855**	607,306
Total assets less current liabilities		**1,302,652**	1,173,132

	Note	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		**391**	662
Deferred tax liabilities		**3,510**	3,803
		3,901	4,465
NET ASSETS		**1,298,751**	1,168,667
CAPITAL AND RESERVES			
Share capital		**6,605**	6,605
Reserves		**1,041,588**	922,298
Total equity attributable to equity shareholders of the Company		**1,048,193**	928,903
Non-controlling interests		**250,558**	239,764
TOTAL EQUITY		**1,298,751**	1,168,667

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 26 August 2021.

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 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 interim financial report for the current accounting period:

- Amendment to HKFRS 16, *Covid-19- related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

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) 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	
	2021	2020
	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	**547,732**	606,546
— Recognised over time	**86,773**	53,841
	634,505	660,387
Revenue from other sources		
— Gross rentals from properties	**1,517**	1,210
	636,022	661,597

(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, other non-current assets 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 other non-current assets and interests in associates.

	Revenue from external customers		**Specified non-current assets**	
			At	At
	Six months ended 30 June		**30 June**	31 December
	2021	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Huizhou	**101,646**	643,492	**351,982**	267,872
Tianjin	**534,376**	18,105	**30,365**	30,140
Zhumadian	**—**	—	**121,085**	101,463
Shenzhen	**—**	—	**92,870**	92,944
Others	**—**	—	**1,595**	1,752
	636,022	661,597	**597,897**	494,171

5. OTHER NET INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**2,390**	3,831
Others	**107**	440
	2,497	4,271

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**12,075**	9,538
Accrued interest on significant financing component of contract liabilities	**33,809**	24,489
Others	**1,913**	1,817
	47,797	35,844
Less: Interest expenses capitalised into inventories	**(24,736)**	(31,314)
	23,061	4,530

(b) Staff costs

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**19,039**	14,790
Contributions to defined contribution retirement plan	**1,384**	325
Equity-settled share-based payment expenses	**633**	1,547
Less: Staff costs capitalised into inventories	**(5,440)**	(2,751)
	15,616	13,911

(c) Other items

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation	**3,645**	3,571
Rentals receivable from investment properties	**(325)**	(250)

7. INCOME TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Provision for Corporate Income Tax ("CIT")	**24,706**	75,180
Provision for Land Appreciation Tax ("LAT")	**27,423**	71,187
Withholding tax	**—**	50
	52,129	146,417
Deferred tax		
Origination and reversal of temporary differences	**(10,330)**	(25,175)
	41,799	121,242

(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 2021 (six months ended 30 June 2020: 25%).

No provision for Hong Kong Profits Tax was recognised for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 RMB119,197,000 (six months ended 30 June 2020: RMB69,000,000) and the weighted average number of 750,000,000 ordinary shares (six months ended 30 June 2020: 750,000,000 shares) in issue during the six months ended 30 June 2021.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2021 and 2020 were the same as the basic earnings per share.

At 30 June 2021, 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 26 August 2021, the Board resolved not to pay an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

10. TRADE AND OTHER RECEIVABLES

As at 30 June 2021, the ageing analysis of trade debtors (which are included in trade and other receivables), the trade debtors recognised and net of allowance for doubtful debts, is as follows:

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Within 1 month	**2**	57
1 to 3 months	**4**	90
3 to 6 months	**5**	135
Over 6 months	**303**	45
Trade debtors, net of loss allowance	**314**	327
Amounts due from related parties	**42,583**	27,561
Other debtors	**56,292**	15,003
Financial assets measured at amortised cost	**99,189**	42,891
Deposits	**2,756**	6,126
Prepayments	**14,503**	32,231
	116,448	81,248

As of 30 June 2021, no trade debts were past due (31 December 2020: 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.

The amounts due from related parties were interest-free, unsecured and recovered within one year.

11. BANK LOANS

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
— Secured	**160,000**	306,482
— Unsecured	**181,446**	62,055
	341,446	368,537

The secured bank loans were pledged by assets below:

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Inventories	**334,467**	963,919

As at 31 December 2020, the secured bank loan of RMB137,917,000 was guaranteed by a minority shareholder. The secured bank loan was repaid in June 2021.

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 2021 (31 December 2020: nil).

At 30 June 2021, bank loans were repayable as follows according to the repayment schedules as set out in the loan agreements:

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Within 1 year	**181,446**	315,245
After 1 year but within 2 years	**16,000**	53,292
After 2 years but within 5 years	**144,000**	—
	341,446	368,537

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 recognized, is as follows:

	At 30 June 2021 *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Within 3 months	**251,255**	145,779
3 to 6 months	**5,624**	16
6 to 12 months	**25,680**	53,542
Over 12 months	**30,562**	19,346
Trade creditors	**313,121**	218,683
Interest payables	**—**	1,302
Other payables and accruals	**68,705**	60,958
Amounts due to related parties *(note)*	**517,222**	435,872
Financial liabilities measured at amortised cost	**899,048**	716,815
Financial guarantee issued	**4,953**	2,378
	904,001	719,193

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the first half year of 2021, although the impacts of the COVID-19 pandemic remained uncertain, with the strong prevention and control measures implemented by the PRC Government, the pandemic situation is stably under control. With the common effort fighting against the outbreak of virus, we are seeing tailwind for economic recovery. This year, being the beginning of the 14th Five-Year Plan of China, we have confidence in domestic economy development. In the first half of 2021, the gross domestic product in the PRC achieved an accumulated growth rate of 12.7%, comparing with that in the same period of last year.

Despite the general tightened property market policies, in general the real estate market is able to maintain a steady development in the PRC attributable to the increase in market supply and the sustainable release of demand. According to the data released by the National Bureau of Statistics of China, total area of commercialized buildings sold in the first half of 2021 amounted to approximately 890 million sq.m., representing a 27.7% increase from the same period of last year. In terms of monetary value, sales value of commercialized buildings grew by about 38.9% to approximately RMB9.3 trillion, as compared to that of the same period of last year. This indicates an increase in the average selling price of about 6.3% to approximately RMB10,485 per sq.m. for the first half of this year, as compared with the average selling price for the year ended 31 December 2020. Overall, the total investment in real estate sector for the first half of this year amounted to approximately RMB7.2 trillion, representing a year-on-year growth of approximately 15.0%.

Nevertheless, it is evident that regulatory controls imposed on the real estate market are strengthening. The overarching principle of "houses are for inhabitation, not for speculation" under regulatory policies of domestic property market remains unchanged. With the objective of "stabilizing land prices, housing prices, and market expectation" as stipulated in the Report On The Work Of The Government in 2021, the momentum of sale of commodity properties in the PRC with a general surge in housing prices is expected to shift to a general slow down.

BUSINESS REVIEW

The Group is cautiously optimistic in facing the new challenges brought by regulations and market environment, with dedicated efforts in strengthening property development as its core business. Our aim is to provide suitable housing products to the customers with concrete demand, and continue leveraging on the Group's established advantage in the Greater Bay Area. During this reporting period, the Group continued putting forth proactive efforts in soliciting opportunities to acquire potential premium projects in the district.

During the first half of the year, the property projects of the Group that are completed for delivery included Million Cities Tycoon Place Phase 4 in Tianjin, the joint venture project in Huizhou, namely Dragon Terrace Phase 1, and the project in Henan province, namely Dragon Palace Phase 1. Together with the sale of villas of Crown Grand Court in Huizhou, the Group generated a stable turnover of approximately RMB636.0 million, and an increase in share of profit of associates at approximately RMB101.0 million. Accordingly, net profit attributable to equity shareholders is approximately RMB119.2 million, achieving an encouraging year-on-year increase of approximately 72.7%. In the first half year of 2021, the Group achieved an aggregated contracted sales value of about RMB846.2 million with a total gross floor area of approximately 90,000 sq.m., representing a year-on-year growth of approximately 51% and 10.7% respectively.

Although the industry is affected by the tightened regulatory control on loan financing, through cautious monitoring of the rhythm and quality of development projects, strict control of debt scale, and maintenance of healthy cash flows, the Group has been able to fully satisfy the "Three Red Lines" requirements. The Group remains prudent on its financial policies in order to adapt to the new regulatory environment, aiming at creating better values for our shareholders along with a goal for a long-term stable and healthy growth.

BUSINESS OUTLOOK

The Group will continue to develop with depth in the Greater Bay Area, targeting to build up premium land reserves. The Group persistently upholds a prudent and proactive attitude in replenishing land bank, focusing on project development in the Greater Bay Area (especially in Huizhou) with resources concentrating in securing themed projects (including health, culture and tourism) which possesses the advantages of local government support and longer development term.

The real estate market is directed toward stable and healthier development as a result of the implementation of long-term regulatory measures featured by "Three Red Lines and Four Camps", centralized supply in the land market, and centralized administration of loan financing. Currently, the property market is shrouded with uncertainties under the implementation of the restrictions over purchase, pricing, sale and mortgage in different cities. Although it may cause short term market fluctuation, since the restriction measures over pricing involve both land price and housing price, the Group may be benefited therefrom in acquiring land at more reasonable prices. Moreover, the business development of the Group is centralized in Huizhou, which in turn we believe the Group will be benefited from the excess of concrete demand from Shenzhen and Dongguan. Hence, it is believed that the degree of long term adverse effect on our target market is limited.

With the improvement of Huizhou airport and various railway transits, Huizhou is able to attract people not just from the Greater Bay Area, but also people from the Northern regions who tend to move their place of residence together with their business to Huizhou. Thanks to the continuous upgrading of the living condition in Huizhou, people continue investing in this developing city because of its quality of living and value of growth. The recognition of its progression values is the powerful driving force for the development of Huizhou real estate market. According to Huizhou municipal government's action plan on Huizhou's integration into the Shenzhen metropolitan area, it will speed up the pre-project works of Shenzhen-DaYaWan and Shenzhen-Huizhou inter-city railways and the extension of Shenzhen Metro Line 14 to the South Huizhou Station, which will contribute to the acceleration of the integration of Shenzhen and Huizhou together. These positive developments cast a vote of confidence in the Group's development in Huizhou real estate market in the future.

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 2021, 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 2021, the Group launched pre-sale of Jade Terrace Phase 1 (玖璟台一期) and Million Cities Legend Phase 3 (萬城名座三期). The Group continued the pre-sale of Dragon Palace Phase 1 and 2 (聚瓏灣一、二期), pre-sale of the villas of Million Cities Tycoon Place Phase 3 (萬城聚豪花園三期) and the sale of the villas of Crown Grand Court (皇冠豪苑) during the six months ended 30 June 2021. Total contracted sales (based on GFA of sales consent), including sale of properties by the associates of the Group, amounted to approximately RMB846.2 million, representing a GFA of approximately 90,000 sq.m. sold during the six months ended 30 June 2021.

(ii) Land bank

As at 30 June 2021, the total GFA of the Group's land bank was about 1,747,000 sq.m., out of which (i) about 179,000 sq.m. GFA was unsold completed properties projects; (ii) about 561,000 sq.m. GFA was unsold and under construction; and (iii) about 1,007,000 sq.m. GFA was reserved for future development.

Revenue

Revenue from sale of properties for the six months ended 30 June 2021 amounted to approximately RMB634.5 million, as compared with approximately RMB660.4 million reported for the six months ended 30 June 2020, representing a slight decrease by approximately 3.9%. Revenue recognized for the six months ended 30 June 2021 was mainly contributed by Million Cities Tycoon Place Phase 4, which was completed for delivery during the six months ended 30 June 2021, and the sale of Crown Grand Court villas while revenue recognized for the same period of last year was mainly contributed by Million Cities Legend Phase 2.

Rental income

Gross rental income from investment properties and inventories for the six months ended 30 June 2021 was approximately RMB1.5 million, as compared with approximately RMB1.2 million reported for the six months ended 30 June 2020, representing an increase by 25%. The increase in gross rental income was mainly due to the increase in rental income from the carparks and inventories for the six months ended 30 June 2021.

Cost of sales

Cost of sales for the six months ended 30 June 2021 was approximately RMB489.0 million, as compared with approximately RMB372.0 million reported for the six months ended 30 June 2020, representing an increase approximately by 31.5%. The increase in cost of sales was mainly due to higher development costs for the project in Tianjin, being Million Cities Tycoon Place Phase 4.

Gross profit and gross profit margin

The gross profit for the six months ended 30 June 2021 was approximately RMB147.0 million, representing a decrease by approximately 49.2%, as compared with the same period last year of approximately RMB289.6 million. The gross profit margin for the six months ended 30 June 2021 was approximately 23.1% (six months ended 30 June 2020: 43.8%). The decrease in gross profit was mainly due to lower gross profit margin recorded for the Tianjin project (Million Cities Tycoon Place Phase 4), as compared with the project in Huizhou (Million Cities Legend Phase 2), attributable to different sales and costs structures in different locations.

Other net income

Other net income for the six months ended 30 June 2021 was approximately RMB2.5 million, as compared with approximately RMB4.3 million for the six months ended 30 June 2020, representing a decrease by approximately 41.5%, which was mainly due to the decrease in interest income during the six months ended 30 June 2021.

Selling expenses

Selling expenses for the six months ended 30 June 2021 were approximately RMB27.2 million, as compared with approximately RMB4.7 million reported for six months ended 30 June 2020, representing an increase by approximately 484.6%. The increase in selling expenses was mainly due to (i) higher commission incurred for the sale of the Tianjin projects (Million Cities Tycoon Place Phases 3 and 4); and (ii) the recognition of repair and maintenance fund upon the delivery of Million Cities Tycoon Phase 4.

Administrative expenses

Administrative expenses for the six months ended 30 June 2021 were approximately RMB30.1 million, as compared with approximately RMB27.1 million for the six months ended 30 June 2020, representing an increase by approximately 11.3%. The increase in administrative expenses was mainly due to the increase in staff costs and business entertainment expenses during the six months ended 30 June 2021.

Share of profits less losses of associates

Share of profits of associates amounted to approximately RMB101 million which contributed greatly to the interim results of the Group during the six months ended 30 June 2021 mainly attributable to the projects, namely Dragon Terrace Phase 1 in Huizhou and Dragon Palace Phase 1 in Henan province. These projects were completed for delivery during the six months ended 30 June 2021, whereas there were only small losses of approximately RMB45,000 recorded for the corresponding period of last year.

Finance costs

Finance costs for the six months ended 30 June 2021 were approximately RMB23.1 million, as compared with approximately RMB4.5 million reported for the six months ended 30 June 2020, representing an increase by approximately 409.1%. This was mainly due to 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.

Income tax

For the six months ended 30 June 2021, income tax was approximately RMB41.8 million, representing a decrease of approximately RMB79.4 million, as compared with income tax of approximately RMB121.2 million for the six months ended 30 June 2020, which was in line with 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 2021 was approximately RMB119.2 million, representing an increase by approximately RMB50.2 million or approximately 72.7%, as compared with the same for the same period of last year. Such increase was mainly due to the increase in share of profits of associates, partly offset by the decrease in profits from subsidiaries of the Group for the interim period of 2021.

OTHER FINANCIAL INFORMATION

Liquidity and financial resources

For the six months ended 30 June 2021, 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 2021 was approximately 26.3%, as compared with approximately 31.5% as at 31 December 2020. Such decrease was mainly due to reduction in bank borrowing upon project completion for delivery for the six months ended 30 June 2021.

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

As at 30 June 2021, the Group's cash and cash equivalents, amounting to approximately RMB407.7 million, were denominated in HK$(14.4%) and RMB(85.6%).

As at 30 June 2021, the Group's bank loans were due for repayment as follows:

	At 30 June 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Within one year	**181,446**	315,245
After one year but within two years	**16,000**	53,292
After two years but within five years	**144,000**	—
	341,446	368,537

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 2021, the Group's borrowings were denominated in RMB. The bank loans are interest-bearing at one-year Loan Prime Rate published by the People's Bank of China ("LPR") plus 1.2% to 1.95% per annum (31 December 2020: one-year LPR plus 1.2% to 2.125% per annum).

(c) As at 30 June 2021, the Group's certain borrowings were secured by inventories with a total carrying amount of approximately RMB334.5 million (31 December 2020: RMB963.9 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 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 2021, 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 2021, 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 2021.

As at 30 June 2021, 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 RMB4.4 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB94.1 million), which mainly related to the addition of furniture and equipment. These capital expenditures were fully financed by internal resources.

Capital commitments

The Group's capital commitments as at 30 June 2021 amounted to approximately RMB293.8 million (31 December 2020: RMB685.0 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 2021, the Group's inventories with a total carrying amount of approximately RMB334.5 million (31 December 2020: RMB963.9 million) were pledged to banks to secure certain banking facilities granted to the Group.

Contingent liabilities

During the six months ended 30 June 2021, 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 RMB211.6 million as at 30 June 2021 (31 December 2020: RMB274.6 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.

During the six months ended 30 June 2021, the Group provided guarantee to secure the loan borrowed by an associate of the Group, Huizhou Well Kong. The total banking facility secured by this guarantee was approximately RMB1.45 billion (31 December 2020: RMB1.45 billion) and the outstanding loan balance was RMB260.0 million as at 30 June 2021 (31 December 2020: RMB600.0 million). The bank loan is also jointly guaranteed by another shareholder of the associate and secured by the inventories of the associate.

As at 30 June 2021, the Group provided guarantee to secure the bank loan borrowed by an associate of the Group, Logan Junhong. The total banking facility secured by this guarantee was RMB420.0 million (31 December 2020: Nil) and the outstanding loan balance was RMB400 million as at 30 June 2021 (31 December 2020: Nil). The bank loan is also jointly guaranteed by another shareholder of the associate.

Deferred income of approximately RMB5.0 million was recognised in respect of these financial guarantees as at 30 June 2021 (31 December 2020: RMB2.4 million).

Operating segment information

The Group's revenue and results for the six months ended 30 June 2021 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 2021, the Group had a total of 231 (31 December 2020: 187) full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2021, the total staff costs, including the directors' emoluments, amounted to approximately RMB21.1 million (six months ended 30 June 2020: RMB16.7 million), of which approximately RMB5.4 million (six months ended 30 June 2020: RMB2.8 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 2021 (six months ended 30 June 2020: Nil).

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

For the six months ended 30 June 2021, 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 2021.

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 2021.

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 2021.

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 2021.

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 2021 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, 26 August 2021

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 Dr. Wu Wing Kuen.