中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

KEY HIGHLIGHTS

– During Current Period, revenue was approximately HK$47,115,000, while approximately HK$221,111,000 was recorded for the same period in 2018. It is mainly due to a decrease in revenue from property development business during Current Period.

– Gross profit for the Current Period decreased by approximately 68.8% to HK$28,128,000 and gross profit margin increased by approximately 18.9 percentage points to approximately 59.7% as compared with the same period of 2018.

– The Group's investment properties recorded a fair value gain of approximately HK$6,397,000.

– The Group's net loss for the period is approximately HK$51,266,000, a net loss of approximately HK$82,968,000 was recorded in the same period of 2018.

– As at 30 June 2019, the Group's total assets recorded approximately HK$2,899,808,000.

INTERIM RESULT

The board (the "Board") of directors (the "Directors") of China City Infrastructure Group Limited, (the "Company") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively refer to as the "Group") for the six months ended 30 June 2019 (the "Current Period").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**47,115**	221,111
Cost of sales		**(18,987)**	(130,861)
Gross profit		**28,128**	90,250
Fair value gain (loss) in respect of investment properties revaluation		**6,397**	(49,031)
Impairment loss on goodwill		**–**	(12,000)
Share of result of a joint venture		**(388)**	(229)
Other operating income		**4,233**	325
Other operating expenses		**(3,045)**	(674)
Selling and distribution expenses		**(2,141)**	(11,966)
Administrative expenses		**(30,306)**	(53,282)
Finance costs	*4*	**(51,707)**	(45,380)
Loss before tax		**(48,829)**	(81,987)
Income tax expenses	*5*	**(2,437)**	(981)
Loss for the period	*6*	**(51,266)**	(82,968)
Attributable to:			
Owners of the Company		**(51,229)**	(81,769)
Non-controlling interests		**(37)**	(1,199)
		(51,266)	(82,968)
		HK Cents	*HK Cents*
Loss per share	*8*		
– Basic and diluted		**(1.66)**	(2.65)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(51,266)**	(82,968)
Other comprehensive expense for the period:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translating of foreign operation	**(84)**	(18,696)
Share of translation reserve of a joint venture	**4**	(79)
Total comprehensive expense for the period (net of tax)	**(51,346)**	(101,743)
Total comprehensive expense attributable to:		
Owners of the Company	**(51,309)**	(100,785)
Non-controlling interests	**(37)**	(958)
	(51,346)	(101,743)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Note	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**6,971**	1,924
Investment properties		**1,998,864**	1,988,636
Goodwill		**48,605**	48,605
Interest in a joint venture		**1,755**	2,139
Right-of-use assets		**44,618**	–
		2,100,813	2,041,304
Current assets			
Inventories		**138**	136
Inventory of properties		**392,250**	393,484
Trade and other receivables	*9*	**384,657**	382,931
Bank balances and cash		**21,950**	49,980
		798,995	826,531
TOTAL ASSETS		**2,899,808**	2,867,835
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital		**312,828**	308,228
Reserves		**920,226**	953,135
Equity attributable to owners of the Company		**1,233,054**	1,261,363
Non-controlling interests		**320**	–
TOTAL EQUITY		**1,233,374**	1,261,363

	Note	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**233,889**	232,307
Borrowings – due after one year		**607,452**	615,588
Deposits received for sale and lease of properties – non-current portion		**12,617**	12,852
Lease liabilities – due after one year		**17,498**	–
		871,456	860,747
Current liabilities			
Trade and other payables	*10*	**201,910**	192,854
Contract liabilities		**118,264**	122,908
Tax payable		**74,308**	74,201
Borrowings – due within one year		**387,707**	333,502
Convertible notes – due within one year		**–**	22,260
Lease liabilities – due within one year		**12,789**	–
		794,978	745,725
TOTAL LIABILITIES		**1,666,434**	1,606,472
TOTAL EQUITY AND LIABILITIES		**2,899,808**	2,867,835
NET CURRENT ASSETS		**4,017**	80,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,104,830**	2,122,110

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

In the current interim period, the Group has applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA for the first time:

HKFRS 16	Leases
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
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Except as described below, the application of these new and revised HKFRSs did not have any material impact on the Group's condensed consolidated interim financial information.

2.1. Adoption of HKFRS 16

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 lease liabilities. 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.

(a) *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	36,332
Liabilities	
Increase in lease liabilties – current	12,320
Increase in lease liabilities – non-current	24,012
Increase in total liabilities	36,332

The reconciliation of operating lease commitment to lease liabilities as at 1 January 2019 is set out below:

	HK$'000
Operating lease commitment as at 31 December 2018 (audited)	42,118
Weighted average incremental borrowing rate as at 1 January 2019	7.5%
Lease liabilities/discounted operating lease commitments as at 1 January 2019 (unaudited)	36,332

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.

(b) Amounts recognised in the statement of financial position and profit or loss

	Right-of-use assets *HK$'000* (Unaudited)	**Lease liabilities** *HK$'000* (Unaudited)
As at 1 January 2019	36,332	36,332
Addition *(note)*	15,172	–
Depreciation charge	(6,774)	–
Interest expense	–	1,280
Payments	–	(7,379)
Exchange realignment	(112)	54
As at 30 June 2019	44,618	30,287

Note: It represented prepayments of land use rights on leasehold land located in the PRC. The Group is granted land use rights for a period of 50 years. There were no ongoing payment obligations under the terms of the land lease, so no lease liabilities were recognized.

2.2. New and amendments to HKFRSs and interpretations issued but not yet effective

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]

1 Effective for annual periods beginning on or after a date to be determined

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2020

The Group has not early adopted the new and amendments HKFRSs, which have been issued but are not yet effective for the current period. The Group has commenced an assessment of the related impact, but is not yet in a position to state whether any substantial changes to the Group's accounting policies and presentation of the financial information will be resulted.

3. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of annual reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker.

The Group's operating segments are as follows:

– Property Development Business Segment engages in development of property projects in the PRC

– Property Investment Business Segment engages in leasing of investment properties in the PRC

– Hotel Business Segment engages in operation of hotels in the PRC

– Property Management Business Segment engages in provision of property management and other services in the PRC

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments.

For the six months ended 30 June 2019

	Property Development Business *HK$'000* (unaudited)	Property Investment Business *HK$'000* (unaudited)	Hotel Business *HK$'000* (unaudited)	Property Management Business *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	**2,315**	**25,643**	**9,866**	**9,291**	**47,115**
RESULT					
Segment operating results	**(4,680)**	**13,819**	**1,615**	**1,058**	**11,812**
Fair value gain in respect of investment properties revaluation	**–**	**6,397**	**–**	**–**	**6,397**
Share of result of a joint venture					**(388)**
Unallocated corporate income					**59**
Unallocated corporate expense					**(15,002)**
Finance costs					**(51,707)**
Loss before tax					**(48,829)**
Income tax expenses					**(2,437)**
Loss for the period					**(51,266)**

For the six months ended 30 June 2018

	Property Development Business *HK$'000* (unaudited)	Property Investment Business *HK$'000* (unaudited)	Hotel Business *HK$'000* (unaudited)	Property Management Business *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	164,553	27,773	20,018	8,767	221,111
RESULT					
Segment operating results	4,164	24,665	(4,069)	2,000	26,760
Fair value loss in respect of investment properties revaluation	–	(49,031)	–	–	(49,031)
Share of result of a joint venture					(229)
Unallocated corporate income					59
Unallocated corporate expense					(14,166)
Finance costs					(45,380)
Loss before tax					(81,987)
Income tax expenses					(981)
Loss for the period					(82,968)

4. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest expense on bank loans, and other borrowings wholly repayable within five years	**48,537**	43,928
Effective interest expense on convertible notes	**1,890**	1,452
Lease finance cost	**1,280**	–
	51,707	45,380

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	**–**	–
PRC Enterprise Income Tax ("EIT")	**554**	1,106
PRC Land Appreciation Tax ("LAT")	**284**	12,419
Current tax charge for the period	**838**	13,525
Deferred tax expenses (credit) for the period	**1,599**	(12,544)
	2,437	981

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

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

PRC LAT is levied at the applicable tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**432**	5,999
Depreciation of right-of-use assets	**6,774**	–
Operating lease rental expense in respect of rented premises	**–**	10,011
Impairment loss of goodwill	**–**	12,000
Gross rental income from investment properties	**(25,643)**	(27,773)
Less: Direct operating expenses from investment properties that generate rental income	**3,092**	1,594
	(22,551)	(26,179)

7. DIVIDENDS

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

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company of approximately HK$51,229,000 (loss attributable to owners of the Company for six months ended 30 June 2018: approximately HK$81,769,000) and the weighted average number of ordinary shares of 3,083,040,973 (six months ended 30 June 2018: 3,082,278,542) deemed to be in issue during the period.

Diluted loss per share was not presented for both periods because the impact of the conversion of convertible notes and the exercise of share options was anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

An aging analysis of trade receivables (net of allowance for credit losses) at the end of the reporting period based on invoice date is as follows:

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 90 days	**27,934**	42,446
91 to 180 days	**18**	144
Over 180 days	**–**	369
Trade receivables	**27,952**	42,959
Prepayments and deposits	**33,970**	42,885
Other receivables	**322,735**	297,087
	384,657	382,931

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

10. TRADE AND OTHER PAYABLES

An aging analysis of the Group's trade payables at the end of the reporting period based on invoice date is as follows:

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 90 days	**2,415**	2,645
91 to 180 days	**–**	372
Over 180 days	**39,552**	40,857
Trade payables	**41,967**	43,874
Interest payables	**52,208**	57,320
Accrued expenses and other tax payable	**6,493**	7,563
Consideration payables for acquisition of subsidiaries	**–**	4,860
Other payables	**101,242**	79,237
	201,910	192,854

The consideration payables represent the amount payable for acquisition of subsidiaries and additional interests in subsidiaries.

Trade payables principally comprise of amounts outstanding for purchase of construction materials and construction work of properties under development and investment properties.

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

11. SUBSEQUENT EVENT

Subsequent to the period, on 19 July 2019, the Group has completed the acquisition of an entire issued share capital of Precious Palace Enterprises Limited at a consideration of HK$795,000,000 which was satisfied by the issue of the convertible bonds in the principal amount of HK$431,500,000 and the issue of the promissory note in the principal amount of HK$363,500,000. An indirect wholly-owned subsidiary of Precious Palace Enterprises Limited, Fengzhen Industrial Development (Shenzhen) Co. Limited* is currently holding properties located in Longgang District, Shenzhen City, the PRC. The properties comprise property complex in Shenzhen, the PRC with land area of approximately 14,971.1 square meters and total gross floor area of approximately 36,875.72 square meters.

* *For indentification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in property related business and started to dedicate to the infrastructure business in late 2014. Pursuant to the announcement made on 3 January 2019 and the circular made on 21 June 2019, the Group entered into a conditional sale and purchase agreement with an independent third party for the acquisition of an entire interest in a target group which holds land and properties in Longgang, Shenzhen ("Longgang Project"). The completion of acquisition has taken place on 19 July 2019. In order to devote more resources to meet the strategic direction of the Group's business, the Group may sell the whole or a portion of Group's property portfolio depending on the market and market value of the property portfolio. In support of further business development of the Group, the management is actively looking for the potential projects which is compatible with the Group's principal activities.

BUSINESS REVIEW

The PRC Property Development Business

During the six months ended 30 June 2019 ("Current Period"), The Group's revenue from property development business amounted to approximately HK$2.3 million, compared with same period in 2018 of approximately HK$164.6 million. Aggregate gross floor area (the "GFA") sold for the current period was 159.29 square meters ("sq.m.") (six months ended 30 June 2018: 13,024 sq.m.) and average selling price (the "ASP") was approximately HK$14,439 per sq.m. (six months ended 30 June 2018: HK$12,638 per sq.m.).

The Group adopted flexible and balanced approach in controlling the progress of developing projects and the Group has thereby maintained a healthy and sound position. The Group's development projects now include Zhongshui•Longyang Plaza in Wuhan and Mei Lai International Centre in Hangzhou.

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company Limited was formed by the Group to operate the Future City Shopping Centre ("Future City") owned by the Group. The Future City is located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the Jiedao Kou station of metro line No. 2. The total leasable area of Future City is approximately 55,362 sq.m. with car park included. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks. Future City now becomes a fashionable, dynamic and international shopping centre to cater for the growing demand from the surrounding business centres and university region (more than twenty universities and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. As at 30 June 2019, the occupancy rate of Future city was approximately 84% (30 June 2018: 98%).

Hangzhou Mei Lai Commercial Property Management Company Limited was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. The commercial part has approximately 55,980.22 sq.m. with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, it is expected that Mei Lai International Centre can meet the increasing needs from residential and office customers nearby. As at 30 June 2019, the occupying rate of the commercial part of the Mei Lai International Centre was approximately 80% (30 June 2018: 82%).

As at 30 June 2019, the aggregate fair value of the Future City and the commercial part of Mei Lai International Centre held by the Group was approximately HK$1,998.9 million. During the period ended 30 June 2019, the rental income generated from the investment properties was approximately HK$25.6 million.

The PRC Hotel Business

Wuhan Future City Hotel Management Company Limited* ("Hotel Company"), an indirectly wholly owned subsidiary of the Group, manages a business hotel ("Future City Hotel") with around 400 rooms, which is featured as one of the largest all suite business hotels in terms of room number in Central China. Easy access to the East Lake and universities and government authorities attracts travellers from different levels. Future City Hotel is well-equipped with function rooms and conference rooms to provide services of banquet and business conference and a team of hospitality professionals was recruited to deliver personalised services to customers.

During the Current Period, the revenue arising from Future City Hotel was approximately HK$9.9 million and the average occupancy rate is around 64% (six months ended 30 June 2018: 85%).

The PRC Property Management Business

Wuhan Future City Property Management Company Limited and Wuhan Chengji Commodity City Management Company Limited, the indirect wholly owned subsidiaries of the Company, provides residents and tenants with safe, modern, comfortable and high quality property management services. During the current period, the revenue from property management was approximately HK$9.3 million (six months ended 30 June 2018: HK$8.8 million).

FINANCIAL REVIEW

Revenue

Revenue of the Group for the Current Period decreased to approximately HK$47.1million (six months ended 30 June 2018: approximately HK$221.1 million). The decrease was mainly due to a decrease in revenue from property development business. During the current period, revenue from property development decreased from approximately HK$164.6 million for the six month ended 30 June 2018 to approximately HK$2.3 million for the Current Period.

Comparing the property investment and hotel businesses for the six months ended 30 June 2018 and the Current Period, revenue from property investment and hotel businesses decreased from approximately HK$27.8 million to approximately HK$25.6 million and from approximately HK$20.0 million to approximately HK$9.9 million respectively, whereas revenue from property management business increased from approximately HK$8.8 million to approximately HK$9.3 million.

Cost of Sales

Cost of sales decreased from approximately HK$130.9 million for the six months ended 30 June 2018 to approximately HK$19.0 million for the Current Period, primarily due to the decrease in total GFA sold under the PRC Property Development business in the Current Period. The cost of properties sold included land costs, development costs and borrowing costs.

During the Current Period, the Group’s cost of sales included those from property investment segment of approximately HK$3.1 million (six months ended 30 June 2018: approximately HK$1.6 million), and from hotel business and property management business of approximately HK$8.3 million and approximately HK$6.4 million respectively, which has increased by approximately HK$1.5 million, decreased by HK$7.8 million and increased by approximately HK$2.3 million compared with the same period last year respectively.

Gross Profit and Gross Profit Margin

The gross profit decreased from HK$90.3 million for the six months ended 30 June 2018 to approximately HK$28.1 million for the Current Period. The Group has a gross profit margin of 59.7% for the Current Period, as compared to 40.8% for the same period in 2018. The increase in the gross profit margin was primarily attributable to the revenue from property investment which accounted for 54% of total revenue during the current period (six months ended 30 June 2018: 13%), the gross profit margin of which was highest among other segments.

Other Operating Income

Other operating income increased to approximately HK$4.2 million for the Current Period from approximately HK$0.3 million for the same period in 2018. This increase was primarily due to the increase in interest income from loans to third party.

Other Operating Expenses

Other operating expenses of the Group increased from approximately HK$0.7 million for the six months ended 30 June 2018 to approximately HK$3.0 million in 2019.

Change in Fair Value of the Investment Properties

There was a net gain of approximately HK$6.4 million for the Current Period arising from change in fair value of the investment property portfolio in the PRC held by the Group comparing to that of a net loss of approximately HK$49.0 million for the six months ended 30 June 2018.

Selling and Distribution Expenses

The selling and distribution expenses decreased to approximately HK$2.1 million for the Current Period from approximately HK$12.0 million for the same period in 2018, primarily due to the decrease in sales commission resulting from the reduction in property sales.

Administrative Expenses

The administrative expenses decreased to approximately HK$30.3 million for the Current Period from approximately HK$53.3 million for the same period in 2018, primarily due to the decrease in administrative expenses related to property development projects in the Current Period.

Finance Costs

The finance costs increased to approximately HK$51.7 million for the Current Period from approximately HK$45.4 million for the same period in 2018 due to the increase in interest expenses resulting from the increase in borrowings by approximately HK$46.1 million.

Income Tax Expenses

The income tax expenses for the Current Period was approximately HK$2.4 million (six months ended 30 June 2018: approximately HK$1.0 million). The amount was primarily attributable to the deferred tax expenses arising from fair value gain in respect of investment properties revaluation and enterprise income tax and land appreciation tax arising from properties sold during the Current Period.

Loss Attributable to Owners of the Company

The loss attributable to owners of the Company for the six months ended 30 June 2019 amounted to approximately HK$51.2 million (Six months ended 30 June 2018: HK$81.8 million). The decrease was mainly attributable to the increase in fair value gain in respect of investment properties and the decrease in impairment loss on goodwill during the Current Period.

Liquidity, Financial and Capital Resources

Cash Position

As at 30 June 2019, total bank balances and cash of the Group amounted to approximately HK$22.0 million (31 December 2018: HK$50.0 million).

Borrowings and Charges on the Group's Assets

As at 30 June 2019, the Group's total debts included borrowings of approximately HK$995.2 million (31 December 2018: HK$949.1 million) and no liability component of convertible notes (31 December 2018: HK$22.3 million). Amongst the borrowings and liability component of convertible notes, approximately HK$387.7 million (31 December 2018: approximately HK$355.8 million) was repayable within one year and approximately HK$607.5 million (31 December 2018: approximately HK$615.6 million) was repayable after one year.

At 30 June 2019, certain inventory of properties together with relevant land use rights and certain investment properties with an aggregate carrying amount of approximately HK$838.8 million (31 December 2018: HK$835.2 million) were pledged as security for certain banking facilities granted to the Group.

Gearing Ratio

The gearing ratio was 78.9% as at 30 June 2019 (31 December 2018: 73.0%). The gearing ratio was measured by net debt (aggregated borrowings, and convertible notes net of bank balances and cash) over the total equity. The current ratio (current assets divided by current liabilities) was 1.01 (31 December 2018: 1.11).

Exposure to Fluctuation in Foreign Exchange and Interest Rate

The Group principally operates the property development, property investment, hotel business and property management in the PRC and most of the transactions are settled in Renminbi. The conversion of Renminbi into foreign currencies or Hong Kong dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The usual treasury policy of the Group is to manage significant currency exposure and minimise currency risk whenever it may have material impact on the Group. The Group did not engage in hedging activities designed or intended to manage currency risk during the six months ended 30 June 2019.

The Group is exposed to interest rate risks, primarily related to the borrowings with floating interest rates as at 30 June 2019. The Group undertook primarily debt obligations to support its property development and general working capital needs. The fluctuations in interest rates affect the cost of financing and may lead to fluctuations in the fair value of the debt obligations of the Group. The results of the Group are also affected by changes in interest rates due to the impact such changes have on interest income from the bank deposits.

Use of Proceeds From Fund Raising

Reference is made to the announcement of the Group dated 29 June 2017, the Group placed 460,000,000 new shares at a price of HK$0.5 per placing share, representing approximately 14.70% of the issued share capital of the Group as at 30 June 2019. The net proceeds from the placing were approximately HK$229.7 million. An analysis of the planned use of the net proceeds from placing and the actual utilised amount as at 31 December 2018 and 30 June 2019 are set out below respectively:

	Planned use of proceeds	**Change of the use of proceeds**	**Actual utilised amount as at 31 December 2018**	**Actual utilised amount during the period from 1 January 2019 to 30 June 2019**	**The remaining proceeds as at 30 June 2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Repayment of loans	70,000	70,000	(130,000)	(10,000)	–
Settlement of construction cost	50,000	10,000	(60,000)	–	–
Use for potential investments and future development	99,900	(80,000)	(3,659)	–	16,241
Use for daily operation	9,800	–	(9,800)	–	–
	229,700	–	(203,459)	(10,000)	16,241

Reference is made to the announcement of the Group dated on 18 May 2017, in which the Group entered into a framework agreement with a vendor for a possible acquisition of 51% equity interests in a target company. Pursuant to the announcement made on 3 January 2019 and the circular made on 21 June 2019, the Group further entered into a conditional sale and purchase agreement with an independent third party for the acquisition of an entire interest in a target group which holds land and properties in Longgang, Shenzhen. The completion of acquisition has taken place on 19 July 2019. The aggregate consideration of HK$795,000,000 is satisfied by the issue of the Convertible Bonds in the principal amount of HK$431,500,000 and the issue of the Promissory Note in the principal amount of HK$363,500,000. Therefore, the Group has reallocated such portion of proceeds to repayment of loans and settlement of construction cost in order to improve its current capital structure, raise the utilization efficiency of its capital and reduce finance expenses which is in the best interest of the Group and its shareholders as a whole.

The remaining proceeds of approximately HK$16.2 million as at 30 June 2019 will be utilised as potential investments and future development of the Group and are expected to be utilised within coming twelve months.

OUTLOOK AND FUTURE PLAN

The real estate market in the PRC is facing the challenges of a more volatile economic climate brought forth by the escalation of Sino-US trade frictions and the austerity measures imposed by the government on the real estate sector. Despite these adverse factors, the stable demand for residence has given a cautiously optimistic outlook to the Group's overall business in the years ahead.

The Group focuses on property development business in first– and second-tier cities in the PRC. The Group completed the acquisition of Longgang Project on 19 July 2019. The Group hopes to gain more property redevelopment experience from this project and is optimistic about the potential redevelopment and appreciation in value of the relevant property following the redevelopment and believes that the potential investment will bring positive returns to the Group in the long run.

The Belt and Road initiative and the "Guangdong-Hong Kong-Macao Greater Bay Area" are the significant development strategy launched by the Chinese government. The Group is looking for different infrastructure business which may benefit from the government strategy and policy.

Meanwhile, the Group will also, on the basis of ensuring its financial health, seek for other investment opportunities in a proactive and prudent manner to raise its profitability by acquiring quality and promising investment projects.

CONTINGENT LIABILITIES AND COMMITMENTS

(a) As at 30 June 2019, the Group had capital commitments in respect of its investment in a joint venture, contracted but not provided in the condensed consolidated financial statements, amounting to approximately RMB9,000,000, equivalent to approximately HK$10,227,000 (31 December 2018: RMB9,000,000, equivalent to approximately HK$10,227,000).

(b) The Group has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and the number of transaction was minimal.

(c) As at 30 June 2019, a subsidiary was exposed to litigations in relation to joint and several guarantees provided to certain financial institutions and independent third parties regarding loans and the interest thereon totalling approximately RMB10,015,000 (equivalent to approximately HK11,381,000) (31 December 2018: RMB10,015,000 (equivalent to approximately HK$11,381,000)) granted to certain independent third parties. The guarantees will be released after the full repayment of the loan and interest thereon. The Group has reached an agreement with other joint guarantors and the lenders that the other joint guarantors are committed to bear the loans and the interest. Therefore, the directors consider the risk to the Company is remote and does not affect the operation of the group.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 30 June 2019 and 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the total number of employees stood at approximately 235 (30 June 2018: 298). Total staff costs for the period under review was approximately HK$16.7 million (six months ended 30 June 2018: approximately HK$23.8 million). The Group offers its workforce comprehensive remuneration and employees' benefits packages.

INTERIM DIVIDEND

The Board resolved that the Company would not declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

During the six months ended 30 June 2019, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provision A.1.3

Under this code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Although the ad-hoc meetings of the Board had convened when the circumstances required, which has given the sufficient notice to all directors and validly convened pursuant to the articles of association (the "Articles") of the Company.

(2) Code Provision A.2.1

Under this code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, Mr. Li Chao Bo is acting as both the chairman of the Board (the "Chairman") and the Chief Executive Officer (the "CEO"). The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of two executive Directors, one non-executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

(3) Code Provision A.4.2

Under this code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Articles, at each annual general meeting, one third of the Directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board (the "Chairman") shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman should not be subject to retirement by rotation.

Except as stated above, the Company has continued to comply with the applicable code provisions of the CG Code.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The audit committee currently comprises Mr. Ng Chi Ho, Dennis (the Chairman of Audit Committee), Mr Kwok Kin Wa (appointed on 4 June 2019), Ms. Kwong Mei Wan, Cally (appointed on 22 July 2019), Mr Ji Yehong (resigned on 4 June 2019), and Mr. Wang Jian (resigned on 22 July 2019), who are the independent non-executive Directors of the Company.

The audit committee has reviewed the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is required to be published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.city-infrastructure.com. The 2019 interim report of the Company will be dispatched to the shareholders and will be available on the websites of HKEX and the Company in due course.

By order of the Board
China City Infrastructure Group Limited
Li Chao Bo
Chairman

Hong Kong, 28 August 2019

* *The English translation of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

As at the date of this announcement, the Board comprises Mr. Li Chao Bo (Chairman and Chief Executive Officer) and Mr. Ji Jiaming as executive Directors; Mr. Zhang Guiqing as non-executive Director; and Mr. Ng Chi Ho, Dennis, Mr. Kwok Kin Wa and Ms. Kwong Mei Wan, Cally as independent non-executive Directors.