



APPLIED DEVELOPMENT HOLDINGS LIMITED

實力建業集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 519

Interim Report
2021



* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. Wu Zhanming (*Chairman and Acting Chief Executive Officer*)

Non-Executive Directors

Mr. Wu Tao

Mr. Yao Wei Rong

Independent Non-executive Directors

Mr. Lau Chi Keung

Mr. Yu Tat Chi, Michael

Mr. Chiu Kit Man, Calvin

AUDIT COMMITTEE

Mr. Yu Tat Chi, Michael (*Chairman*)

Mr. Lau Chi Keung

Mr. Chiu Kit Man, Calvin

REMUNERATION COMMITTEE

Mr. Lau Chi Keung (*Chairman*)

Mr. Chiu Kit Man, Calvin

Mr. Yu Tat Chi, Michael

NOMINATION COMMITTEE

Mr. Wu Zhanming (*Chairman*)

Mr. Lau Chi Keung

Mr. Chiu Kit Man, Calvin

COMPANY SECRETARY

Ms. Luk Shan

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 803, 8th Floor

Harcourt House

39 Gloucester Road

Wanchai

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong

Investor Services Limited

17M Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

SHARE REGISTRAR IN BERMUDA

MUFG Fund Services (Bermuda) Limited

4th Floor North

Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

PRINCIPAL BANKERS

China Construction Bank (Asia)

Corporation Limited

Hang Seng Bank Limited

Nanyang Commercial Bank, Limited

AUDITOR

Mazars CPA Limited

Certified Public Accountants

SOLICITOR

Miao & Co.

(in Association with Han Kun Law Offices)

STOCK CODE

HKEX: 519

WEBSITE

<http://www.applieddev.com>

Note: Mr. Yuen Chi Ping resigned as an Executive Director and Chief Executive Officer with effect from 19 August 2020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 31 December 2020*

	Notes	Six months ended 31 December	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	2	196,374	223,613
Cost of sales		(188,767)	(214,119)
Gross profit		7,607	9,494
Other revenue	2	1,290	2,017
Other income		897	90
Net gain (loss) on disposal of financial assets at fair value through profit or loss ("FVPL")		220	(14,279)
Net increase (decrease) in fair value of financial assets at FVPL		6,052	(58,158)
Net decrease in fair value of investment properties		(34,700)	(18,339)
Reversal (Provision) of impairment loss on loans and interest receivables, net	12(b)	9,685	(1,550)
Selling expenses		(2,525)	(8,419)
Administrative expenses		(9,446)	(15,616)
Finance costs	4	(3,076)	(5,484)
Loss before taxation	5	(23,996)	(110,244)
Taxation	6	549	5,614
Loss for the period, attributable to equity holders of the Company		(23,447)	(104,630)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
– Exchange differences arising on translation of foreign operations		29,174	–
Total other comprehensive income for the period, net of tax		29,174	–
Total comprehensive income (loss) for the period, attributable to equity holders of the Company		5,727	(104,630)
Loss per share	7		
Basic		(0.94) HK cents	(4.18) HK cents
Diluted		(0.94) HK cents	(4.18) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Non-current assets			
Investment properties	8	309,200	415,200
Property, plant and equipment	9	71,760	533
Right-of-use assets		676	1,068
Financial assets designated at fair value through other comprehensive income ("Designated FVOCI")		155	155
		381,791	416,956
Current assets			
Properties under development	10	566,203	514,891
Properties held for sale	10	158,511	315,304
Financial assets at FVPL	11	390,921	332,291
Other receivables	12	9,305	23,252
Tax recoverable		–	8
Restricted bank deposits		17,530	15,899
Cash and cash equivalents		203,923	270,671
		1,346,393	1,472,316
Current liabilities			
Accounts and other payables	13	284,152	447,422
Tax payables		8,621	–
Interest-bearing borrowings		272,190	272,190
Lease liabilities		700	791
		565,663	720,403
Net current assets		780,730	751,913
Total assets less current liabilities		1,162,521	1,168,869
Non-current liabilities			
Deferred tax liabilities		84,231	96,009
Lease liabilities		–	297
		84,231	96,306
Net assets		1,078,290	1,072,563
Capital and reserves			
Share capital	14	25,051	25,051
Reserves		1,053,239	1,047,512
Total equity		1,078,290	1,072,563

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 31 December 2020*

	Reserves							
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve (non-recycling) HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total reserves HK\$'000
At 1 July 2020 (audited)	25,051	406,743	(417)	11,931	204,610	(18,439)	443,084	1,047,512
Loss for the period	-	-	-	-	-	-	(23,447)	(23,447)
Other comprehensive income <i>Items that may be reclassified subsequently to profit or loss</i>								
Exchange differences arising on translation of foreign operations	-	-	-	-	-	29,174	-	29,174
Total other comprehensive income for the period	-	-	-	-	-	29,174	-	29,174
Total comprehensive income (loss) for the period	-	-	-	-	-	29,174	(23,447)	5,727
At 31 December 2020 (unaudited)	25,051	406,743	(417)	11,931	204,610	10,735	419,637	1,053,239
At 1 July 2019 (audited)	25,051	406,743	(397)	11,931	204,610	(2,963)	698,233	1,316,157
Loss for the period and total comprehensive loss for the period	-	-	-	-	-	-	(104,630)	(104,630)
At 31 December 2019 (unaudited)	25,051	406,743	(397)	11,931	204,610	(2,963)	593,603	1,213,527
								1,343,208
								1,072,563
								(23,447)
								29,174
								5,727
								1,078,290

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2020

	Six months ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(11,960)	29,595
INVESTING ACTIVITIES		
Interest received	74	134
Purchase of financial assets at FVPL	(76,424)	(44,396)
Purchase of property, plant and equipment	(2)	(23)
Additions to investment properties	–	(459)
Net proceeds from disposal of financial assets at FVPL	23,384	168,892
Net cash (used in) from investing activities	(52,968)	124,148
FINANCING ACTIVITIES		
Interest paid	(3,062)	(5,470)
Repayment of other borrowings	–	(110,327)
Repayment of lease liabilities	(402)	(398)
Net cash used in financing activities	(3,464)	(116,195)
Net (decrease) increase in cash and cash equivalents	(68,392)	37,548
Cash and cash equivalents at the beginning of the period	270,671	98,413
Effect on exchange rate changes	1,644	–
Cash and cash equivalents at the end of the period	203,923	135,961
Analysis of balances of cash and cash equivalents:		
Cash at banks and on hand	164,948	122,553
Cash held by securities brokers	28,722	3,242
Short-term time deposits	10,253	10,166
	203,923	135,961

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2020

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group for the six months ended 31 December 2020 (the "Interim Financial Statements") are unaudited, but have been reviewed by the Audit Committee of the Company. These unaudited Interim Financial Statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The Interim Financial Statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair values.

The Interim Financial Statements should be read in conjunction with the Group's consolidated financial statements for the year ended 30 June 2020 ("2020 Annual Financial Statements"). The accounting policies adopted in the Interim Financial Statements are consistent with those applied in the preparation of 2020 Annual Financial Statements, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 July 2020 as described below.

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform – Phase 1
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

The adoption of those new/revised HKFRSs has no material impact on the Group's results and financial position for the current or prior periods and does not result in any significant change in accounting policies of the Group.

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2. REVENUE

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Gross rental income from investment properties	3,164	2,908
Sale of properties	192,525	220,160
Interest income from financial assets at FVPL	685	545
	196,374	223,613
Other revenue		
Bank interest income	74	134
Loan interest income	1,215	1,746
Other	1	137
	1,290	2,017
Total revenue	197,664	225,630

3. SEGMENT INFORMATION

Management identifies operating segments based on internal reports that are regularly reviewed by the chief operating decision maker, who are the executive directors of the Company, for the purposes of allocating resources to segments and assessing their performance. The executive directors consider resort and property development, property investment and investment holding are the Group's major operating segments.

The resort and property development segment includes properties under development, second (six months ended 31 December 2019: first) phase of project has been completed and transferred to properties held for sales during the period. The property investment segment includes mainly commercial properties that are held for capital appreciation or for earning rental income. The investment holding segment includes investing and holding unlisted investment fund, equity securities and debt instruments and other assets. No operating segments have been aggregated.

3. SEGMENT INFORMATION (continued)

Segment revenue and results for the six months ended 31 December 2020 are presented below:

	Resort and property development HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Investment holding HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue	192,525	3,164	685	196,374
Other revenue and income	84	357	273	714
	192,609	3,521	958	197,088
Results				
Segment results	(1,559)	(32,013)	7,188	(26,384)
Unallocated corporate income				11,158
Unallocated corporate expenses				(5,694)
Finance costs				(3,076)
Loss before taxation				(23,996)
Taxation				549
Loss for the period				(23,447)

Segment assets and liabilities as at 31 December 2020 are presented below:

	Resort and property development HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Investment holding HK\$'000 (Unaudited)	Segment total HK\$'000 (Unaudited)	Unallocated HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 31 December 2020						
Assets	761,427	381,670	527,040	1,670,137	58,047	1,728,184
Liabilities	(371,993)	(276,889)	(245)	(649,127)	(767)	(649,894)

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3. SEGMENT INFORMATION (continued)

Other segment information for the six months ended 31 December 2020 are presented below:

	Resort and property development <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Investment holding <i>HK\$'000</i> (Unaudited)	Segment total <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 31 December 2020						
Other segment information:						
Additions to property, plant and equipment	2	-	-	2	-	2
Net decrease in fair value of investment properties	-	(34,700)	-	(34,700)	-	(34,700)
Depreciation of property, plant and equipment	(24)	-	(59)	(83)	-	(83)
Depreciation of right-of-use assets	-	-	-	-	(392)	(392)
Net increase in fair value of financial assets at FVPL	-	-	6,052	6,052	-	6,052
Net gain on disposal of financial assets at FVPL	-	-	220	220	-	220
Reversal of impairment loss of loans and interest receivables	-	-	-	-	9,685	9,685

Segment revenue and results for the six months ended 31 December 2019 are presented below:

	Resort and property development <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Investment holding <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue	220,160	2,908	545	223,613
Other revenue and income	142	11	2	155
	220,302	2,919	547	223,768
Results				
Segment results	(9,301)	(16,281)	(72,296)	(97,878)
Unallocated corporate income				1,952
Unallocated corporate expenses				(8,834)
Finance costs				(5,484)
Loss before taxation				(110,244)
Taxation				5,614
Loss for the period				(104,630)

3. SEGMENT INFORMATION (continued)

Segment assets and liabilities as at 30 June 2020 are presented below:

	Resort and property development <i>HK\$'000</i> (Audited)	Property investment <i>HK\$'000</i> (Audited)	Investment holding <i>HK\$'000</i> (Audited)	Segment total <i>HK\$'000</i> (Audited)	Unallocated <i>HK\$'000</i> (Audited)	Total <i>HK\$'000</i> (Audited)
As at 30 June 2020						
Assets	865,483	428,465	520,073	1,814,021	75,251	1,889,272
Liabilities	(538,130)	(276,680)	(150)	(814,960)	(1,749)	(816,709)

Other segment information for the six months ended 31 December 2019 are presented below:

	Resort and property development <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Investment holding <i>HK\$'000</i> (Unaudited)	Segment total <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 31 December 2019						
Other segment information:						
Additions to property, plant and equipment	9	-	14	23	-	23
Additions to investment properties	-	459	-	459	-	459
Net decrease in fair value of investment properties	-	(18,339)	-	(18,339)	-	(18,339)
Depreciation of property, plant and equipment	(27)	-	(59)	(86)	-	(86)
Depreciation of right-of-use assets	-	-	-	-	(389)	(389)
Net decrease in fair value of financial assets at FVPL	-	-	(58,158)	(58,158)	-	(58,158)
Net loss on disposal of financial assets at FVPL	-	-	(14,279)	(14,279)	-	(14,279)
Impairment loss of loans and interest receivables	-	-	-	-	(1,550)	(1,550)

There was no revenue generated from inter-segment transactions for both periods. Revenue from resort and property development segment reported above represents sales of properties in the People's Republic of China other than Hong Kong (the "PRC") to the external customers. Segment results represent profit or loss attributable to each segment without allocation of corporate income, central administration costs, finance costs and income tax credit. Total assets and liabilities represent all assets and liabilities under each segment together with unallocated corporate assets and liabilities other than those that have been eliminated on consolidation.

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3. SEGMENT INFORMATION (continued)

Geographical information

The Group's operations are principally located in Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue from external customers by geographical market, which interest income from financial assets at FVPL is based on the location of the markets of the respective instruments:

	Revenue by geographical market Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	3,790	3,338
The PRC	192,525	220,160
Others	59	115
	196,374	223,613

The following is an analysis of the carrying amounts of non-current assets by geographical area in which the assets are located:

	Carrying amounts of non-current assets	
	31 December	30 June
	2020	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Hong Kong	381,526	416,678
The PRC	110	123
	381,636	416,801

Non-current assets presented above exclude financial assets. The Group does not have deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

4. FINANCE COSTS

	Six months ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on bank and other borrowings	6,356	7,864
Interest expenses on lease liabilities	14	14
	6,370	7,878
Less: Interest capitalised into properties under development	(3,294)	(2,394)
	3,076	5,484

5. LOSS BEFORE TAXATION

	Six months ended	
	31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period is stated after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	4,236	5,020
Retirement benefit scheme contribution	165	276
Total staff costs	4,401	5,296
Other items		
Cost of inventories	188,767	214,119
Depreciation		
– Property, plant and equipment	83	86
– Right-of-use assets	392	389
Direct operating expenses relating to investment properties that did not generate rental income	564	321
Short-term lease expenses	56	66

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6. TAXATION

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax	6,728	4,466
PRC Land Appreciation Tax	4,057	5,303
	10,785	9,769
Deferred tax		
Reversal of temporary differences	(11,334)	(15,383)
Total income tax credit	(549)	(5,614)

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 31 December 2020 and 2019.

PRC Enterprise Income Tax ("EIT") in respect of operations in the PRC has been provided based on the estimated assessable profits in accordance with the relevant tax laws applicable to the entities in the PRC. The statutory EIT tax rate in the PRC is 25%.

PRC Land Appreciation Tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs, business tax and all property development expenditures. The Group has estimated, made and included in the income tax a provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. Prior to the actual cash settlement of the LAT liabilities, the LAT provision is subject to the final review/approval by the tax authorities.

7. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 31 December 2020 is based on the loss attributable to equity holders of the Company of approximately HK\$23,447,000 (six months ended 31 December 2019: HK\$104,630,000) and on the weighted average of 2,505,105,739 (six months ended 31 December 2019: 2,505,105,739) ordinary shares of the Company in issue during the period.

The diluted loss per share is the same as the basic loss per share for the six months ended 31 December 2020 and 2019. The Company did not have any dilutive potential ordinary shares during the six months ended 31 December 2020 and 2019.

8. INVESTMENT PROPERTIES

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Investment properties, at fair value	309,200	415,200

9. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2020, comprised of leasehold land and buildings with the carrying value of HK\$71,300,000 transferred from investment properties upon the change of usage of the properties from leased out for earning rental income and capital appreciation to owner's occupation in December 2020, the fair value of which at the date of transfer amounted to HK\$71,300,000 were revalued by an independent professional valuer.

10. PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Properties under development ("PUD")	566,203	514,891
Properties held for sale ("PHS")	158,511	315,304
	724,714	830,195

The PUD and PHS are located in the PRC held under lease term of 40 years from 2014 to 2053. The development of the properties as at 31 December 2020 is expected to be completed within one year (30 June 2020: is expected to be completed within one year).

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11. FINANCIAL ASSETS AT FVPL

		31 December 2020	30 June 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Unlisted investment funds	(a)	183,513	178,260
Equity securities listed in Hong Kong	(b)	174,445	146,170
Debt instruments listed in Hong Kong	(c)	26,779	7,861
Debt instruments listed in overseas	(d)	6,184	–
		390,921	332,291

Notes:

- (a) As at 31 December 2020, included in the unlisted investment funds were 100% Class A participating, redeemable, non-voting shares of Green Asia Restructure SP and 100% Class A participating, redeemable, non-voting shares of Green Asia Restructure SP II with carrying amount of approximately HK\$119,211,000 and HK\$56,502,000 (30 June 2020: HK\$120,581,000 and HK\$57,679,000) respectively. Green Asia Restructure SP and Green Asia Restructure SP II are segregated portfolios managed by Green Asia Restructure Fund SPC (the "Green Asia Fund").

The Green Asia Fund is an exempted company incorporated with limited liability and registered as segregated portfolio company in the Cayman Islands. The investment objective of the Green Asia Fund is capital appreciation by engaging in the business of originating, underwriting, acquiring and trading, debt securities and loans in listed and unlisted corporate, which may be publicly traded or privately placed.

As at 31 December 2020 and 30 June 2020, the fair value of the Green Asia Fund was established by reference to the prices quoted by the fund administrators (30 June 2020: a professional external valuer) based on its net assets value.

- (b) The fair value of listed equity securities are based on quoted market prices in active market.
- (c) As at 31 December 2020, the debt instruments listed in Hong Kong bore fixed interest rate ranging from 7.25% to 12% per annum. The fair value of these debt instruments at the end of the reporting period was determined on the basis of quoted market price.
- (d) As at 31 December 2020, the debt instruments listed in overseas bore fixed interest rate ranging from 7.25% to 8.75% per annum. The fair value of these debt instruments at the end of the reporting period was determined on the basis of quoted market price.

The above financial instruments were designated at fair value upon initial recognition as they are managed and evaluated on a fair value basis.

12. OTHER RECEIVABLES

	<i>Notes</i>	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Loans and interest receivables	<i>(a)</i>	54,139	63,824
Loss allowances	<i>(b)</i>	(54,139)	(63,824)
		-	-
Other receivables		6,288	6,138
Loss allowances	<i>(b)</i>	(5,363)	(4,905)
		925	1,233
Deposits, prepayments and other debtors		8,380	20,397
Dividend receivables		-	1,622
		8,380	22,019
		9,305	23,252

Notes:

- (a) As at 31 December 2020, the loan with principal amount of HK\$15,500,000 (30 June 2020: HK\$15,500,000) granted to a third party borrower is unsecured, bearing fixed interest rates at 4% (30 June 2020: 4%) per annum and is overdue more than 9 months (30 June 2020: more than 3 months). The remaining loans with principal amount of HK\$37,744,000 (30 June 2020: HK\$48,008,000) granted to another third party borrower, in which the spouse of Mr. Yuen Chi Ping, the Company's former director, has 20% equity interest and had been a director of the borrower until she resigned on 14 December 2019, are unsecured, bearing fixed interest rates of 4% (30 June 2020: 4%) per annum. Pursuant to partial repayment and extension of loan agreement dated 11 November 2020, the repayment date has been extended to 15 July 2021 (30 June 2020: Overdue more than 3 months).

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12. OTHER RECEIVABLES (continued)

Notes: (continued)

- (b) The movement in the loss allowances for the loans and interest receivables during the period is summarised below.

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Loss allowances for the loans and interest receivables:		
At the beginning of the period/year	63,824	4,835
Reversal of loss allowances	(10,264)	–
Increase in allowance	579	58,989
	<hr/> 54,139 <hr/>	<hr/> 63,824 <hr/>
At the end of the period/year	54,139	63,824

The movement in the loss allowances for other receivables during the reporting period is summarised below.

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Loss allowances for the loans and interest receivables:		
At the beginning of the period/year	4,905	–
Increase in allowance	–	4,995
Exchange realignment	458	(90)
	<hr/> 5,363 <hr/>	<hr/> 4,905 <hr/>
At the end of the period/year	5,363	4,905

13. ACCOUNTS AND OTHER PAYABLES

	<i>Notes</i>	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
Accounts payables			
To third parties	<i>(a)</i>	127,710	131,173
Other payables			
Accrued charges and other creditors		10,761	9,745
Deposits received	<i>(b)</i>	2,603	14,595
Contract liabilities	<i>(c)</i>	107,335	259,222
Provision for land transfer fees		22,646	20,710
Interest payables – other borrowings		13,097	11,977
		156,442	316,249
		284,152	447,422

Notes:

- (a) The ageing analysis of accounts payables of the Group is presented based on recognition date at the end of the reporting period as follows:

	31 December 2020 HK\$'000 (Unaudited)	30 June 2020 HK\$'000 (Audited)
0-180 days	38,036	16,942
181-365 days	73,945	105,304
Over 365 days	15,729	8,927
	127,710	131,173

- (b) Deposits received represent intention deposits received from potential customers for purchase of PUD and PHS.
- (c) Contract liabilities represent sale proceeds received from customers in connection with the Group's pre-sale of properties. The deposit will be transferred to profit or loss upon the Group's revenue recognition criteria are met.

APPLIED DEVELOPMENT HOLDINGS LIMITED

14. SHARE CAPITAL

	31 December 2020 (Unaudited)		30 June 2020 (Audited)	
	Number of ordinary shares	HK\$'000	Number of ordinary shares	HK\$'000
Authorised:				
At 31 December 2020/30 June 2020, ordinary shares of HK\$0.01 each	6,000,000,000	60,000	6,000,000,000	60,000
Issued:				
At 31 December 2020/30 June 2020	2,505,105,739	25,051	2,505,105,739	25,051

15. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Statements, during the period, the Group had the following transactions with related parties:

(a) Remuneration to key management personnel

Remuneration to key management personnel including amounts paid to the directors are as follows:

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	2,122	2,424
Retirement benefits scheme contributions	3	12
	2,125	2,436

(b) During the six months ended 31 December 2020, consultancy fee of approximately HK\$385,000 was paid to a related company controlled by Mr. Wu Tao, a member of key management personnel of the Company.

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2020 and 30 June 2020 across the three levels of the fair value hierarchy defined in HKFRS 13, "Fair Value Measurement", with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the financial instruments.

(i) Financial assets measured at fair value

	31 December 2020 (Unaudited)			
	Total <i>HK\$'000</i>	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>
<i>Financial assets at FVPL:</i>				
Unlisted investment funds	183,513	-	183,513	-
Equity securities listed in Hong Kong	174,445	174,445	-	-
Debt instruments listed in Hong Kong	26,779	26,779	-	-
Debt instruments listed in overseas	6,184	6,184	-	-
	390,921	207,408	183,513	-
<i>Designated FVOCI:</i>				
Equity securities listed in Hong Kong	155	155	-	-
	30 June 2020 (Audited)			
	Total <i>HK\$'000</i>	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>
<i>Financial assets at FVPL:</i>				
Unlisted investment funds	178,260	-	178,260	-
Equity securities listed in Hong Kong	146,170	140,610	-	5,560
Debt instruments listed in Hong Kong	7,861	7,861	-	-
	332,291	148,471	178,260	5,560
<i>Designated FVOCI:</i>				
Equity securities listed in Hong Kong	155	155	-	-

During the six months ended 31 December 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

APPLIED DEVELOPMENT HOLDINGS LIMITED

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

(i) *Financial assets measured at fair value* (continued)

The details of the movements of the fair value measurements categorised as Level 3 of the fair value hierarchy during the six months ended 31 December 2020 and year ended 30 June 2020 are as follows:

Movements in Level 3 fair value measurements

	Financial assets at FVPL	
	Listed equity securities	
	31 December	30 June
	2020	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At the beginning of the period/year	5,560	–
Additions	–	5,560
Proceeds from disposal of financial assets at FVTPL	(5,586)	–
Net gain on disposal of financial assets at FVTPL	26	–
At the end of the period/year	–	5,560

Quantitative information of the significant unobservable inputs and description of valuation techniques used in Level 3 fair value measurement

The quantitative information of the significant unobservable input and description of valuation techniques used in Level 3 fair value measurement, including the description of the sensitivity to changes in unobservable inputs for recurring Level 3 fair value measurements, are as follows:

Valuation approach	Unobservable input	Sensitivity to changes
Discounted cash flow method and binomial tree model	Risky rate	If the risky rate increased/decreased, the fair value of the listed equity securities would decrease/increase.
	Volatility	If the volatility increased/decreased, the fair value of the listed equity securities would increase/decrease.

17. INTERIM DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 31 December 2020 (six months ended 31 December 2019: Nil).

18. CAPITAL COMMITMENTS

	31 December 2020 <i>HK\$'000</i> (Unaudited)	30 June 2020 <i>HK\$'000</i> (Audited)
Contracted but not provided in respect of the acquisition of financial assets at FVPL	15,600	–

On 3 December 2020, the Group has entered into an investment agreement to subscribe the Class A participating, non-redeemable, non-voting shares of an unlisted fund with consideration including subscription amount of US\$2,000,000 which is an exempted company incorporated with limited liability and registered as segregated portfolio company in the Cayman Islands. The subscription has completed by January 2021.

MANAGEMENT DISCUSSION AND PROSPECTS

INTERIM DIVIDEND

The board (the “Board”) of directors (the “Directors”) of Applied Development Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) do not recommend the payment of an interim dividend for the six months ended 31 December 2020 (2019: nil).

RESULTS

The Company recorded a loss of HK\$23,447,000 for the six months ended 31 December 2020 as compared to the loss of HK\$104,630,000 for the six months ended 31 December 2019. Reduction in loss was mainly due to, among others, the net increase in fair value of financial assets at fair value through profit or loss (“FVPL”) from a net loss of HK\$58,158,000 for the six months ended 31 December 2019 to a net gain of HK\$6,052,000 for the six months ended 31 December 2020. The loss for the six months ended 31 December 2020 was mainly attributable to, among others, the net impact of the decrease in fair value of investment properties of HK\$34,700,000 and the reversal of impairment loss on loans and interest receivables of HK\$9,685,000.

BUSINESS REVIEW

The Group’s principal business is resort and property development, property investment and investment holding.

Resort and Property Development

The Group has acquired Wuxi Shengye Haigang Joint Stock Company Limited* (無錫盛業海港股份有限公司) (“Wuxi Shengye”) in June 2017, the pre-sale of the properties under development commenced in October 2017, the construction of the first and second phase of the apartment portion were completed in the third quarter of 2019 and third quarter of 2020 respectively. The completion of the whole project (“Wuxi Property Project”) is expected to take place in the fourth quarter of 2021. Most of the apartment portion of first and second phase have been delivered to customers as at 31 December 2020. During the six months ended 31 December 2020, Wuxi Shengye delivered properties to customers and recognised a revenue of HK\$192,525,000. As at 31 December 2020, the contracted sales with the contracts signed but properties not yet delivered were HK\$151,021,000. Although outbreak of COVID-19 has caused a heavy strike to the global economy in 2020, the comprehensive and strict pandemic prevention measures in the PRC have brought the pandemic under control in months, and the economy has begun to recover in 2020. Thus the impact to Wuxi Property Project was not material.

MANAGEMENT DISCUSSION AND PROSPECTS

Property Investment

The Group commenced sub-division of the property of the whole 24th floor, Tower One, Lippo Centre, No. 89 Queensway, Hong Kong (the “Sub-division Properties”) in October 2018 and the sub-division was completed in February 2019. After the completion of sub-division, four units of the Sub-division Properties were sold for a consideration of HK\$108,300,000, and the Group recognised a gain on disposal of approximately HK\$8,316,000 for the year ended 30 June 2019. No Sub-division Properties were sold during the six months ended 31 December 2020.

As at 31 December 2020, three units of the Sub-division Properties with carrying value of HK\$71,300,000 were transferred from investment properties to owner’s occupation as properties, plant and equipment. The fair value of the Group’s investment properties as at 31 December 2020 was HK\$309,200,000 (30 June 2020: HK\$415,200,000). The economy and properties market of Hong Kong were being hit by the outbreak of COVID-19, which led to the decrease in the fair value of the Group’s investment properties for the six months ended 31 December 2020 by HK\$34,700,000 (2019: HK\$18,339,000). It is emphasised that the fair value loss was non-cash in nature.

The Group’s investment properties contributed rental income of HK\$3,164,000 in total for the six months ended 31 December 2020 (2019: HK\$2,908,000), the Sub-division Properties has contributed stable returns to the Group in a long term.

Investment Holding

The Group’s investments strategy for its investment holding business is mainly expected to diversify its investments in unlisted investment funds, listed equity securities and listed debt instruments. For the six months ended 31 December 2020, the Group recorded interest income from financial assets at FVPL of HK\$685,000 (2019: HK\$545,000), net gain on disposal of financial assets at FVPL of HK\$220,000 (2019: net loss of HK\$14,279,000) and an increase in fair value of financial assets at FVPL of HK\$6,052,000 (2019: a decrease of fair value of HK\$58,158,000). Details of the significant investments held by the Group for the six months ended 31 December 2020 are set out as follows:

MANAGEMENT DISCUSSION AND PROSPECTS

1. *Green Asia Restructure SP and Green Asia Restructure SP II*

Since 2017, the Group invested in Green Asia Restructure SP and Green Asia Restructure SP II, both of which are segregated portfolios managed by Green Asia Restructure Fund SPC (the “Green Asia Fund”). The investment objective of the Green Asia Fund is capital appreciation by engaging in the business of originating, underwriting, acquiring and trading debt securities and loans in listed and unlisted corporate, which may be publicly traded or privately placed.

The investment cost of the Green Asia Fund held by the Group as at 31 December 2020 was HK\$173,797,000. As at 31 December 2020, the fair value of Green Asia Restructure SP and Green Asia Restructure SP II was HK\$119,211,000 and HK\$56,502,000 respectively. The fair value of the Green Asia Fund accounted for 10% of the Group’s total assets. During the six months ended 31 December 2020, the fair value of the Group’s investment in the Green Asia Fund increased by HK\$4,619,000. The Group made a partial redemption of such investments of HK\$7,120,000 during the six months ended 31 December 2020. There was no realised gain or loss with respect to such investments during the six months ended 31 December 2020 as the partial redemption was completed at its fair value.

2. *Zall Smart Commerce Group Limited (“Zall Smart”)*

As at 31 December 2020, the Group held 148,283,000 ordinary shares of Zall Smart, representing approximately 1.3% of the total issued share capital of Zall Smart. The shares of Zall Smart are listed on Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 2098). Zall Smart and its subsidiaries are principally engaged in developing and operating of large-scale consumer product-focused wholesale shopping malls, and providing supply chain management and trading business, e-commerce services, financial services, warehousing and logistics services for the online and offline customers in the PRC. The acquisition cost of Zall Smart shares held by the Group as at 31 December 2020 was HK\$1.28 per share. As at 31 December 2020, the fair value of investment in Zall Smart was approximately HK\$105,281,000, which amounted for 6% of the Group’s total assets. During the six months ended 31 December 2020, the fair value of the Group’s investment in Zall Smart remained unchanged. At the same time, the Group had not received and recognised any dividend, investment income or realised gain or loss from its holding of Zall Smart’s shares.

The remaining investments held by the Group mainly included unlisted investment funds, listed equity securities and listed debt instruments, each of which represented less than 5% of the Group’s total assets as at 31 December 2020.

MANAGEMENT DISCUSSION AND PROSPECTS

PROSPECTS

For the six months ended 31 December 2020, the Group has steadily progressed its existing business and projects despite the adverse effects of the external macro environment. Wuxi Property Project of the Group is advancing the sales and delivery of apartments as planned, while its planning and sales preparation for commercial part have been stepping up, with the overall progress of project in line with expectations. The Group continues to enhance the governance and innovation of its business segments, and in the investment segment, deeply explores valuable investment opportunities, conducts research for exploring, deploying and making prudent investments in the directions and industries such as new energy, biomedicine, artificial intelligence and consumption upgrades, in an effort to improve the profitability of the Group. Looking forward to the financial year ending 30 June 2021, the Group will adhere to the principles of striving for stability in policy and execution, strengthening the development of existing business segments and seizing every opportunity. Meanwhile, the Group will expand income and reduce expenditure, reinforce the foundation of the Company with the aim to strive for the growth of the results of the Group.

FINANCIAL REVIEW

Revenue, cost of sales and gross profit margin

The revenue of the Group decreased by HK\$27,239,000, or 12%, from HK\$223,613,000 for the six months ended 31 December 2019 to HK\$196,374,000 for the six months ended 31 December 2020. The revenue generated for both periods was mainly derived from resort and property development segment, the properties of Wuxi Shengye were delivered to customers and bringing in revenue. There was a decrease in revenue because most of the properties delivered to customers in the six months ended 31 December 2019 were with decoration while the properties delivered to customers in the six months ended 31 December 2020 were partly bare shells which were sold with a lower unit price. The revenue recognised from properties sales was HK\$192,525,000 and cost of sales after considering the fair value adjustment at acquisition was HK\$188,767,000 and gross profit margin was 2% for the six months ended 31 December 2020. The low gross profit margin was mainly attributable to the revaluation of the properties under development at the date of acquisition of Wuxi Shengye in 2017. Excluding the fair value adjustment on inventories, from the perspective of Wuxi Shengye, the gross profit margin for the sale of properties was 14%.

MANAGEMENT DISCUSSION AND PROSPECTS

Net gain (loss) on disposal of financial assets at FVPL

The Group recognised a net loss on disposal of financial assets at FVPL of HK\$14,279,000 for the six months ended 31 December 2019 and a net gain on disposal of financial assets at FVPL of HK\$220,000 for the six months ended 31 December 2020. The net loss of previous period was mainly derived from the loss on disposal of the shares of Redsun Properties Group Limited (stock code: 1996) of HK\$16,251,000. No material disposal was noted for the six months ended 31 December 2020.

Net increase (decrease) in fair value of financial assets at FVPL

The fair value of financial assets at FVPL of the Group increased from a net decrease in fair value of financial assets at FVPL of HK\$58,158,000 for the six months ended 31 December 2019 to a net increase in fair value of financial assets at FVPL of HK\$6,052,000 for the six months ended 31 December 2020. The net decrease in financial assets at FVPL for the six months ended 31 December 2019 was mainly derived from the decrease in the fair value of Zall Smart's shares held by the Group of HK\$31,658,000 and the Green Asia Fund of HK\$19,698,000. The financial performance of the financial assets at FVPL held by the Group for the six months ended 31 December 2020 is stable.

Net decrease in fair value of investment properties

The net fair value loss of investment properties of the Group increased from HK\$18,339,000 for the six months ended 31 December 2019 to HK\$34,700,000 for the six months ended 31 December 2020. The fair value of investment properties of the Group was determined with reference to the valuation conducted by an independent professional valuer, AVISTA Valuation Advisory Limited. The valuer has adopted the direct comparison method for the valuation by comparing recent market evidence of similar properties located in the neighborhood area. The fair value of investment properties was affected by the economy and properties market of Hong Kong. The outbreak of the COVID-19 hit overall trading volume and price of grade-A offices in Hong Kong.

MANAGEMENT DISCUSSION AND PROSPECTS

Reversal (Provision) of impairment loss on loans and interest receivables

The Group recognised a provision of impairment loss on loans and interest receivables of HK\$1,550,000 for the six months ended 31 December 2019 and a reversal of impairment loss on loans and interest receivables of HK\$9,685,000 for the six months ended 31 December 2020. As disclosed in the announcement of the Company dated 11 November 2020, HK\$10,000,000 partial repayment has been received from a debtor and the corresponding provision provided previously of HK\$10,000,000 has been reversed for the six months ended 31 December 2020. The impairment loss on loans and interest receivables as at 31 December 2020 has been assessed by an independent professional valuer, APAC Appraisal and Consulting Limited. Besides the partial repayment of HK\$10,000,000, there were no significant changes in the valuation method, principle assumptions and key inputs adopted by the Group for the year ended 30 June 2020. For details of the valuation method, principle assumptions and key inputs relating to the provision of impairment loss on loans and interest receivables, please refer to pages 7 to 9 of the annual report of the Company for the year ended 30 June 2020.

Selling expenses

Selling expenses of the Group decreased by HK\$5,894,000, or 70%, from HK\$8,419,000 for the six months ended 31 December 2019 to HK\$2,525,000 for the six months ended 31 December 2020. The selling expenses for the six months ended 31 December 2020 mainly comprised of sales commission and sales service fees. The decrease in selling expenses was mainly due to the reduction in commission expenses and advertising expenses incurred with less pre-sales activities in the six months ended 31 December 2020.

Administrative expenses

Administrative expenses of the Group decreased by HK\$6,170,000, or 40%, from HK\$15,616,000 for the six months ended 31 December 2019 to HK\$9,446,000 for the six months ended 31 December 2020. The administrative expenses for the six months ended 31 December 2020 mainly comprised of staff costs and legal and professional fees. The decrease in administrative expenses was mainly due to (i) one-off compensation expenses recognised for the six months ended 31 December 2019 and none was noted for the six months ended 31 December 2020; and (ii) the reduction in legal and professional fees and entertainment expenses for the six months ended 31 December 2020.

MANAGEMENT DISCUSSION AND PROSPECTS

Finance cost

Finance cost of the Group decreased by HK\$2,408,000, or 44%, from HK\$5,484,000 for the six months ended 31 December 2019 to HK\$3,076,000 for the six months ended 31 December 2020. The decrease in finance costs was because the effective interest rate reduced and a margin loan of HK\$100,000,000 has been fully repaid in October 2019.

Loss for the period

Loss for the period of the Group decreased by HK\$81,183,000, or 78%, from HK\$104,630,000 for the six months ended 31 December 2019 to HK\$23,447,000 for the six months ended 31 December 2020. The loss for the six months ended 31 December 2020 mainly included (i) the net decrease in fair value of investment properties of HK\$34,700,000; and (ii) the reversal of impairment loss on loans and interest receivables of HK\$9,685,000. The reduction in loss were mainly contributed to, among others, the net increase in fair value of financial assets at FVPL from a net loss of HK\$58,158,000 for the six months ended 31 December 2019 to a net gain of HK\$6,052,000 for the six months ended 31 December 2020.

Liquidity, financial resources and capital structure

As at 31 December 2020, the Group had current assets of HK\$1,346,393,000 (30 June 2020: HK\$1,472,316,000) and current liabilities of HK\$565,663,000 (30 June 2020: HK\$720,403,000), representing a current ratio of about 2.4 times (30 June 2020: 2.0 times). The Group's total equity and the total bank and other borrowings as at 31 December 2020 amounted to HK\$1,078,290,000 (30 June 2020: HK\$1,072,563,000) and HK\$272,190,000 (30 June 2020: HK\$272,190,000) respectively. All of the bank and other borrowings of the Group are repayable within one year. The gearing ratio of the Group as at 31 December 2020, calculated as a ratio of the total bank and other borrowings to total equity, was approximately 25% (30 June 2020: 25%).

MANAGEMENT DISCUSSION AND PROSPECTS

PRINCIPAL RISK AND UNCERTAINTIES

The Group is principally engaged in resort and property development, property investment and investment holding. The financial position, operations, business and prospects of the Group and its individual business segment are affected by the following significant risks and uncertainty factors:

Business Risk

The prospects of the Group's property business depend on the performance of the property market in Hong Kong and the PRC. Also, the fair values of the Group's investment properties and financial results of property development segment directly link to the performance of the property market in Hong Kong and the PRC. Any real estate market downturn in Hong Kong and the PRC may materially and adversely affect the financial position, operations, business and prospects of the Group and may lead to fair value loss of the Group's investment properties and net loss from property development segment. The real estate markets in Hong Kong and the PRC are affected by many factors, including but not limited to, changes in the local's economic, political, social and legal environment and changes in local's fiscal and monetary policy, all of which are beyond the control of the Group. The management policy to mitigate this risk is to diversify the Group's business in terms of asset composition, revenue and profitability.

Market Risk

The Group's property investment business is operating in a rather competitive environment as rental rate of properties is transparent in property leasing markets in Hong Kong. The transparency of the leasing markets puts pressure on the revenue and profitability of the Group's property investment business. The management policy to mitigate this risk is to diversify its property investment portfolio (where possible) in terms of property type and location.

The real estate market in the PRC is highly competitive. Areas that are in competition include quality, design, brand, cost control and environment ancillary facilities. If the competitors of the Group keep on improving their products, the Group will improve its quality and cost control to catch the market and maintain the sales turnover.

MANAGEMENT DISCUSSION AND PROSPECTS

Financial Risk

The Group is exposed to financial risks relating to foreign currency, equity price, credit and liquidity risk in its ordinary course of business. As stated below, the majority of the Group's assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, and hence the exposure to foreign exchange risk was insignificant to the Group. The Group is exposed to price risk arising from listed equity investments and listed debt instruments held under financial assets at FVPL. Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group. The Group's credit risk is mainly attributable to loan receivables and cash equivalents. The management of the Group considers credit risk in relation to cash equivalents is insignificant as they were deposited in credit worthy banks and securities brokers. The Group has monitored the credit risk from loans receivables on an ongoing basis. Although a credit impairment on loans receivables was noted during the financial year ended 30 June 2020, subsequently, partial repayment in the sum of HK\$10,000,000 has been received on 11 November 2020. The Group would continue to take follow-up actions to recover the debts. The Group has sufficient level of cash and cash equivalents to finance the Group's operations and expected expansion, therefore, the liquidity risk is insignificant.

FOREIGN CURRENCY MANAGEMENT

The majority of the Group's assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, and hence the exposure to foreign exchange risk was insignificant to the Group for the six months ended 31 December 2020. The Group did not engage in foreign exchange speculation activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expenses, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used.

TREASURY POLICIES

As at 31 December 2020, the Group's bank and other borrowings of approximately HK\$272,190,000 (30 June 2020: HK\$272,190,000) were denominated in Hong Kong dollars and at variable interest rates. Cash and cash equivalents held by the Group were mainly denominated in Hong Kong dollars, Renminbi and US dollars. The Group currently does not have interest rate hedging policies as the management of the Group does not expect significant interest rate risk as at 31 December 2020. However, the management of the Group monitors the interest rate exposure from time to time and may consider hedging the significant interest rate exposure if needed.

MANAGEMENT DISCUSSION AND PROSPECTS

OPERATING SEGMENT INFORMATION

Details of the operating segment information of the Group for the six months ended 31 December 2020 are set out in note 3 to the condensed consolidated financial statements of this interim report.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at 31 December 2020 are set out in note 18 to the condensed consolidated statements of this interim report.

PLEDGE OF ASSETS

As at 31 December 2020, the Group had provided the following securities for banking facilities granted to the Group:

- (i) pledge of leasehold land and buildings under investment properties and properties, plant and equipment of the Group with carrying amount of HK\$309,200,000 and HK\$71,300,000 respectively (30 June 2020: investment properties of HK\$415,200,000);
- (ii) assignment agreements in respect of rental income of the Group's investment properties duly executed by the Group in favour of the bank; and
- (iii) assignment agreements in respect of insurance compensation of the Group's investment properties and leasehold land and buildings duly executed by the Group in favour of the bank.

As at 31 December 2020, the fair value of the financial assets at FVPL of HK\$45,556,000 (30 June 2020: HK\$35,329,000) was pledged as collateral to margin loan facilities granted to the Group with a corporate guarantee provided by the Company. No margin loan facilities was utilised as at 31 December 2020 (30 June 2020: Nil).

LITIGATION

As at 31 December 2020, the Group has no material litigation against it which had to be disclosed.

MANAGEMENT DISCUSSION AND PROSPECTS

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2020, the Group employed a total of 32 (30 June 2020: 28) employees and executive Director. The Group's total staff costs including Directors' emoluments amounted to HK\$4,401,000 for the six months ended 31 December 2020 (2019: HK\$5,296,000). The remuneration packages for Directors and employees are normally reviewed annually and are structured by reference to market terms and individual competence, performance and experience. The Group also provides medical insurance coverage and operates a provident fund scheme or relevant fund scheme for its employees in Hong Kong and the PRC.

SUBSEQUENT EVENTS

The Group has no significant subsequent events after 31 December 2020.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register to be kept by the Company pursuant to section 352 of the SFO were as follows:

Long position in the shares of the Company

Name of Director	Capacity and Nature of interest	Number of issued shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Zhanming	Beneficial owner	279,935,000	11.17%

Save as disclosed above, as at 31 December 2020, none of the Directors nor chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register to be kept by the Company pursuant to section 352 of the SFO.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

There is no change in the Directors' information which is required to be set out in this interim report pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

OTHER INFORMATION

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

The Directors and employees of the Group are entitled to participate in the share option scheme of the Company adopted by the Company on 15 November 2012. As at 31 December 2020, no share options had been granted since the adoption of the share option scheme.

Save as disclosed above, at no time during the six months ended 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other associated corporations (within the meaning of Part XV of the SFO) and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such rights during the six months ended 31 December 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

To the best knowledge of the Directors, as at 31 December 2020, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity and Nature of interest	Number of issued shares held	Approximate percentage of the issued share capital of the Company
Ms. Li Fuyi	Beneficial Owner	279,930,959	11.17%

Save as disclosed above, as at 31 December 2020, the Directors and chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

OTHER INFORMATION

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

During the six months ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standard of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of the shareholders of the Company (the "Shareholders") and to enhance the performance of the Group. The Company has adopted the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Listing Rules as its own code of corporate governance.

The Company complied with all the applicable code provisions (the "Code Provisions") of the CG Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December 2020, save for Code Provisions A.4.2 and A.2.1. Details of the deviation with reasons are set out in the paragraphs below:

Under Code Provision A.4.2 of the CG Code, all directors who are appointed to fill casual vacancies are subject to re-election at the first general meeting after their appointments by the board, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Bye-laws deviate from this Code Provision in the following aspects:

- (a) Under Bye-law 86(2) of the Bye-laws, amongst other things, the Directors have the power to appoint any person as a Director, either to fill a casual vacancy on the Board, or, subject to authorisation by the Shareholders in general meeting, as an addition to the existing Board. Any Director so appointed by the Board shall hold office until the next following annual general meeting of the Company.

The reason for retaining this Bye-law is for the purpose of compliance with paragraph 4(2) of Appendix 3 of the Listing Rules. The requirement for Directors appointed to fill casual vacancies or as additional members of the Board to retire only at the next annual general meeting, rather than at the next general meeting also allows the Shareholders to consider re-election of such new Directors at the same time as the re-election of the Directors who are subject to retirement by rotation, at the same general meeting.

OTHER INFORMATION

- (b) Under Bye-law 87(1) of the Bye-laws, at the annual general meetings of the Company, one third of the Directors for the time being (or where the number is not a multiple of three, the number nearest to, but not greater than one third), including the Independent Non-executive Directors, shall retire from office by rotation provided that the Chairman of the Board and/or the managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Notwithstanding the provision of Bye-law 87(1), in practice, the Chairman of the Board, Mr. Wu Zhanming will voluntarily submit himself for re-election by the Shareholders at the annual general meeting at least once every three years. Accordingly in practice, all Directors (including the Independent Non-Executive Directors) are subject to retirement by rotation at least once every three years. All Independent Non-executive Directors are appointed for a term of three years, and are subject to retirement by rotation in accordance with the Bye-laws.

Under Code Provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer (the “CEO”) should be separate and performed by different individuals. During the six months ended 31 December 2020, Mr. Wu Zhanming was the Chairman and Acting CEO of the Company. The Board believes that the holding of both positions of Chairman and CEO by the same individual will not impair the balance of power and authority between the Board and the management of the Group. The Board is now taking steps to identify suitable candidates to act as the CEO.

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Company for the six months ended 31 December 2020 have been reviewed by the Audit Committee and have been duly approved by the Board under the recommendation of the Audit Committee.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries with the Directors, all the Directors have confirmed that they had complied with the required standards set out in the Model Code during the six months ended 31 December 2020.

* For identification purpose only