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DREAM EAST
梦东方

DREAMEAST GROUP LIMITED
夢東方集團有限公司

*(Incorporated in Bermuda with limited liability and
carrying on business in Hong Kong as “DreamEast Cultural Entertainment”)*

(Stock Code: 593)

ANNOUNCEMENT OF 2021 INTERIM RESULTS

CHAIRMAN’S STATEMENT

I am pleased to present the interim results of DreamEast Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 (the “period under review”). During the period under review, the Group recorded total revenue of approximately HK\$37.1 million, an increase of approximately HK\$25.9 million or 231% compared to approximately HK\$11.2 million for the corresponding period in 2020. The rise in revenue was mainly resulted from resumption of properties sales during the period under review due to alleviation of COVID-19 pandemic. The Group’s results for the period under review recorded a net loss of approximately HK\$448.4 million (six months ended 30 June 2020: net loss of approximately HK\$209.7 million). Such increase was mainly resulted from non-capitalised borrowing costs of approximately HK\$260.9 million for the current period compared to that of approximately HK\$64.7 million for the same period of last year. In addition, there was provision for settlement fee and other relevant cost incurred in respect of the litigation with certain construction contractors and lenders of approximately HK\$113.0 million for the period under review.

As at 30 June 2021, the equity attributable to the owners of the Company amounted to approximately HK\$321.2 million, representing a decrease of approximately HK\$434.0million from that of 31 December 2020.

The Board of Directors of the Company (“Board” or “Directors”) has decided not to pay an interim dividend.

BUSINESS REVIEW

Hengyang DreamEast Resort

The Hengyang DreamEast Resort is situated in Hengyang, Hunan Province, China. It is at the south of Mount Heng, which is surrounded by time-honoured cultural heritage and magnificent natural landscape, and is the important origin of Huxiang Culture. Hengyang DreamEast Resort selects its site in the urban district of south Hengyang, backed by Yumu Mountain and Hengshan Technology City in the east. It is approximately 15 kilometers away from Hengnan County in a straight line, and is created as a city of memory related to Huxiang Culture with Huxiang Culture as the soul and Huxiang landscape as the skeleton.

The development of the Hengyang DreamEast Resort comprised of “Four Towns and Five Parks”, including the cultural town, the science and technology town, the forest town and the agricultural town as the Four Towns, and the DreamEast Adventure Park, the Fantasy Waterpark, the Pets Kingdom, the Agricultural Cultural Park and the International Sports Park as the Five Theme Parks. The DreamEast Shooting (Clay) Centre with a site area of approximately 69,000 square meters in the Hengyang DreamEast Resort was completed, and held the clay shooting match of the thirteenth sports game of Hunan province and the Hunan “DreamEast Cup” Youth Shooting Championship (Clay Project) successfully. The shooting centre will be opened to tourists for shooting experience in the future as one of the entertainment activities.

Taking advantages of the rich historical cultural and ecological resources of Hunan Province, and its superior development location, Hengyang DreamEast Resort undertakes the historical opportunities for the development and transformation of the entire city. With the support of vigorously developing the cultural and tourism industry by the nation, provinces and cities, Hengyang DreamEast Resort is expected to emerge as a tourist destination in Hengyang City and a national benchmark of industry linkage among primary, secondary, tertiary industry, and industry-city integration development, with aims to achieve a new industrial development model featuring with industry-city integration, tourism-city integration, and ecological integration, and thus creating a new center of Hengyang cultural and tourism industry that is green, ecological and sustainable development under the background of the new economic normal to present the world a city of Huxiang Culture, and become the core driving force of the “Southern Expansion” of Hengyang, thereby forming a new pattern characterized by “Mount Heng in the North and DreamEast in the South”.

Since the outbreak of COVID-19, Hengyang DreamEast Resort has been suspended, and the Group expects to resume its pre-sales in the fourth quarter of 2021. The management is discussing related marketing strategies and selling prices. For details, please refer to the Company's announcement published on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") (www.hkexnews.hk) on 17 June 2021.

DreamEast Jiashan

The DreamEast Jiashan is positioned itself as a children dream world for the whole family and located in Jiashan County, Jiaxing, Zhejiang Province in Greater Shanghai, China. In terms of comprehensive strength, Jiashan County is one of the top 100 counties in China. Situated at the intersection of Jiangsu Province, Zhejiang Province and Shanghai, Jiashan is the core district of the Yangtze River Delta city cluster and the first connection between Zhejiang Province and Shanghai. The DreamEast Jiashan is located in the tourist resort of Dayun Town, Jiashan with a planned area of approximately 733,000 square meters and will be developed in three phases. Phase 1 covers DreamEast Jiashan Experience Zone, Deer Elf Discovery Park, Dream Theatre, Dream Space, Hyatt Place Hotel, etc.; Phase 2 and Phase 3 comprise of a water village incorporating the millennia-old Wuyue culture with the functions of cultural experience, homestay tour, themed business, boutique inn and tourist residence, which is a children dream world that connects the whole family with art, aesthetics and innovation.

The 101 Experience Centre, which integrates cultural and artistic display and experience, was opened to the public. Later, it will serve as a tourist reception centre and image display window of the DreamEast Jiashan and even the Sweet Town, and be used to display various art forms such as painting, photography, sculpture, Jiangnan folk culture and Jiashan non-heritage culture, so that the whole family can be baptized with art and culture in happiness.

Phase 2 of the DreamEast Jiashan was included in the plans including "Zhejiang Province's '4 + 1' Major Project Construction Plan", "Zhejiang Province's 'Five 100 Billion' Investment Project", "Major Projects Intensively Commenced in Zhejiang Province" and "Major Project Plan of the Service Industry in Zhejiang Province". After the project is completed and put into operation, it will bring considerable benefits. It will further increase the development level of the culture and tourism industry in Jiashan, strengthen the integration and upgrade of cultural and tourism projects in the region, accelerate the construction of Jiashan Chocolate Sweet Town, promote the transformation and upgrading of service industries in the region, to achieve a win-win situation for enterprises and local fiscal revenue.

Since September 2020, the DreamEast Jiashan has been temporarily suspended. During the period under review, the Group has been actively consulting with an independent third party to sell 51% of the equity of Dream Oriental Dream Jiashan, and signed a preliminary cooperation agreement on 3 June 2021. Please refer to the announcement published by the Company on the website of HKEX on 17 June 2021 for details.

Xiake Island Ecological City

Xiake Island Ecological City is located in Xu Xiake Town, Jiangyin City in Jiangsu Province within the greater Shanghai region. With the Yangtze River on its north and Taihu Lake a little way on its south, Jiangyin has been an important transportation hub and a key military site since ancient times. It has a long history and rich cultural heritage, and was the home of the famous explorer Xu Xiake, and has been called “the Ancient County of Yanling” and “a loyal and righteous state”. Having the most listed companies in the county, it is also called the “Number One County-level City with the Most Capital in China”. By leveraging on its nearly 3.33 million square meters of natural wetland resources, Xiake Island Ecological City will turn itself into a highland to present and promote the Xu Xiake culture, and a tourist destination for “its original wetland life forms and an exceptional experience of the Xu Xiake culture”.

With a unique shape of “Paradise + Town”, Xiake Island Ecological City is a cultural town of Xu Xiake that integrates Xiake Academy, Mufu Clubhouse and theater space, combining with Xu Xiake Adventure Park that integrates motor-driven game, specialty catering and themed Concept Guesthouse representing a rare cultural travel model in China. It is believes that by leveraging on the cultural IP of “Xu Xiake”, Xiake Island Ecological City will achieve the integration and connection of multiple commercial activities to emerge as a new Chinese cultural and tourism complex for all ages. In the future, Xiake Island Ecological City will not only become a destination of learning and recreation for families in the Pan-Yangtze River Delta, but also will attract tourists from all over the world to have fun here!

On 22 January 2019, the Group made a successful bid for the land use rights of three pieces of lands situated at Xu Xiake Town, Jiangyin City in Jiangsu Province for commercial use at the total price of RMB474 million (approximately HK\$551 million). Meanwhile, the Group entered into the cooperation agreement with 金茂蘇皖企業管理(天津)有限公司 (Jinmao Suwan Corporate Investment (Tianjin) Company Limited) (“Jinmao Investment”) on 30 January 2019, in relation to the establishment of a joint venture company for codevelopment of Xiake Island Ecological City. Jinmao Investment was an indirect wholly-owned subsidiary of China Jinmao Holdings Group Limited (Stock Code: 817.HK). Pursuant to the cooperation agreement, the joint venture company will be owned as to 51% by the Group and 49% by Jinmao Investment. The joint venture company will be accounted for as a jointly controlled entity of the Group and the Group will recognise its interest in the joint venture company using the equity method in accordance with the relevant accounting principles. The revenue, assets and liabilities of the joint venture company will hence not be consolidated into the consolidated financial statements of the Group.

In the first half of 2021, Xiake Island Ecological City has successfully continued the hot selling performance of “three open and three sold out” in 2020. In the fourth opening on 28 March 2021, 388 units were sold on the same day, the contract amounts reached RMB617 million, and the reduction rate reached 88.6%. At present, part of the Xiake Island Ecological City, a total of 38 high-rise units and 194 houses, has obtained the fifth batch of pre-sale certificate.

DreamEast Future World Aerospace Theme Park

DreamEast Future World is the first aerospace theme park in China and the second in the world, and a national AAAA-level tourist attraction. Located in Yanjiao National High-tech Development Zone in the east of Beijing, the scenic spot enjoys a unique geographical location. It is only a 30-minute drive from Tiananmen Square in Beijing, just across the river from Beijing’s sub-center, and adjacent to transportation hubs such as Beijing Capital International Airport and Yanjiao Railway Station. It has been honored as a social classroom resource unit for primary and secondary school students in Beijing, one of the top ten cultural industry projects in Hebei Province, the scientific quality education base for all citizens in Hebei Province and the municipal best research and learning scenic spot. In March 2020, in view of the high-quality aerospace science resources and huge social influence of DreamEast Future World, it has been identified as the first batch of Hebei science popularization demonstration base by the Department of Science and Technology of Hebei Province, which greatly meets the needs of aerospace culture popularization in the Beijing-Tianjin-Hebei region.

DreamEast Future World covers a total area of 16,000 square metres and contains more than 30 high-tech experience projects. It is a comprehensive aerospace science and technology museum that integrates aerospace technology exhibitions, extracurricular science popularization education, and high-tech interactive experiences. The scenic spot adheres to the mission of “Popularizing Aerospace Knowledge and Spreading Aerospace Spirit” and has accumulatively received more than one million primary and middle school students and members of research and study groups at home and abroad. Through entertaining science popularization, it stimulates children’s love for the aerospace undertaking, plants the seeds of science for children, and enlightens their aerospace dream. It is the second classroom for primary and middle school students to learn and grow and has developed into an influential aerospace technology research and study destination in China.

During the May Day holiday of 2021, the tourism reception of DreamEast Future World Aerospace Theme Park ushered in a blowout, and the number of visitors to the park increased by 43.86% compared with the same period before the outbreak of COVID-19 pandemic, reaching the highest level in history. In July 2021, the Summer Partner Program of DreamEast Future World was launched, and more than 20,000 primary and secondary school students in total from 35 cities visited for practical learning. The number of visitors increased by 24% compared with the same period in 2019. The market has recovered to the same period before the pandemic, and the space science market has shown great competitiveness.

PROPERTY DEVELOPMENT AND LEASING BUSINESS

Beijing Fangshan “COMB+” Project (the “Fangshan Project”)

The Beijing Fangshan “COMB+” Project is located between the Southwest 5th and 6th Ring Roads in Beijing, China and only 2 minutes’ walk from Suzhuang Station on Fangshan Line of the Beijing Subway. In July 2014, the Group acquired 3 land parcels for the North, Central and South Zones of the project at a total consideration of approximately HK\$3.3 billion. The project occupies a total site area of approximately 147,000 square metres, with a gross floor area of approximately 434,000 square metres and a planned gross floor area of approximately 322,000 square metres.

The project is the first large-scaled integrated community in the district, which is not only the then key investment solicitation project on Fangshan District, but also the key project of constructing knowledge economy international demonstration zone. However, in the second half of 2017, the Beijing government implemented various adjustment measures to cool down the property market, coupled with adjustments to the policies of bank loan granting, resulting in the substantial stagnation of sales of Fangshan “COMB+” Project with slow development progress and difficult operation. Up to now, the sold gross floor area of Fangshan Project is 66,000 square meters, and the overall remaining salable sold gross floor area is approximately 259,000 square meters.

Please refer to the announcements of the Company dated 11 March 2021, 21 April 2021 and 28 May 2021 published on the website of HKEX for the latest update on the development of Fangshan Project.

PROSPECTS

Adhering to the original designs and craftsmanship, DreamEast has ploughed deep in the cultural industry for 18 years. It put forward the “all-IPs” concept and “new entertainment” principle firstly and has been adhering to creating unique and excellent works to “Share the Beauty of China with the World”. DreamEast has its own understanding and strategy on the development of theme parks. The strategy has been changed from “emphasizing the excavation and creation of cultural theme” to “focusing on the seven aspects of the successful operation of theme parks”, and further changed to “creating theme cultural tourism projects featuring ‘all-IPs’ with ‘new entertainment’ concept”. Although the cultural tourism industry keeps moving forward half speed due to the pandemic, DreamEast will continue to renew its commitment to the original aspirations and concentrate on creating excellent products with craftsmanship and perseverance. In addition to continuing to strengthen its core competitiveness, it will actively seek changes to seize the opportunities arising from crisis and turn the crisis into opportunities.

DreamEast will develop into a cultural and entertainment conglomerate in a persistent way, so as to create stable and sustainable returns for shareholders. With the progress of project development, the Group’s cultural entertainment business will enter a positive development stage consisting of leasing, operation, ticket income and self-developed IPs, therefore establishing an ecosystem that centres on the cultural entertainment industry. In the future, DreamEast will inherit and innovate Chinese culture with its masterpieces and connect the world with the culture.

GROUP RESULTS

The Board herein presents the unaudited interim results of the Group for the six-month period ended 30 June 2021. These unaudited interim results have not been audited, but have been reviewed by the audit committee of the Company (“Audit Committee”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-months ended 30 June 2021

		Six months ended	
		30.6.2021	30.6.2020
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4		
Sales of properties		31,352	1,445
Rental income		2,361	8,342
Tourism park operations and other services		3,385	1,424
		<u>37,098</u>	<u>11,211</u>
Cost of sales and services		<u>(34,321)</u>	<u>(6,851)</u>
Gross profit		2,777	4,360
Other gains and losses		(134,986)	(52,265)
Other income		6,931	13,925
Share of results of joint ventures		(24,046)	(9,935)
Fair value changes of investment properties		(13,672)	(33,258)
Selling expenses		(2,199)	(15,033)
Administrative expenses		(25,664)	(61,170)
Finance costs	6	<u>(260,945)</u>	<u>(64,657)</u>
Loss before tax	7	(451,804)	(218,033)
Income tax credit	8	<u>3,418</u>	<u>8,314</u>
Loss for the period		<u>(448,386)</u>	<u>(209,719)</u>

	Six months ended	
	30.6.2021	30.6.2020
	<i>NOTE</i> HK\$'000 (Unaudited)	<i>HK\$'000</i> (Unaudited)
Other comprehensive gain (loss):		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	3,713	15,943
Share of other comprehensive income (loss) of joint ventures	13,840	(3,885)
	17,553	12,058
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation to presentation currency	(5,814)	(7,493)
Other comprehensive gain for the period	11,739	4,565
Total comprehensive loss for the period	(436,647)	(205,154)
Loss for the period attributable to:		
Owners of the Company	(444,802)	(209,060)
Non-controlling interests	(3,584)	(659)
	(448,386)	(209,719)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(434,456)	(202,064)
Non-controlling interests	(2,191)	(3,090)
	(436,647)	(205,154)
Loss per share:	<i>10</i>	
– Basic	HK\$(1.5580)	HK\$(0.7323)
– Diluted	HK\$(1.5580)	HK\$(0.7323)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	<i>NOTES</i>	30.6.2021 <i>HK\$'000</i> (Unaudited)	31.12.2020 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		211,226	210,091
Right-of-use assets		37,564	40,472
Investment properties		2,625,950	2,609,669
Investment in joint ventures		1,198,679	1,208,886
Other non-current assets		119,069	117,856
		<u>4,192,488</u>	<u>4,186,974</u>
Current assets			
Properties under development for sale		3,964,556	3,918,733
Completed properties held for sale		275,481	300,991
Inventories		121	169
Trade receivables	11	6,730	106
Other receivables, deposits and prepayments		12,303	9,611
Amounts due from related companies		376,986	351,698
Other current assets		261,256	257,395
Restricted bank balance		7,724	13,005
Bank balances and cash		10,793	10,771
		<u>4,915,950</u>	<u>4,862,479</u>
Current liabilities			
Trade and other payables and accruals	12	1,231,846	1,078,803
Contract liabilities		345,531	353,000
Amounts due to related companies		1,180,742	1,157,510
Lease liabilities		5,974	5,939
Tax payable		75,082	71,844
Bank and other borrowings			
– within one year		4,428,529	3,770,692
Due to a joint venture		138,338	106,469
Convertible bonds and bonds		604,970	567,032
		<u>8,011,012</u>	<u>7,111,289</u>
Net current liabilities		<u>(3,095,062)</u>	<u>(2,248,810)</u>
Total assets less current liabilities		<u>1,097,426</u>	<u>1,938,164</u>

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current liabilities		
Deferred tax liabilities	168,613	170,084
Bank and other borrowings		
– over one year	30,045	461,103
Lease liabilities	1,219	3,830
Convertible bonds and bonds	383,008	352,460
	<u>582,885</u>	<u>987,477</u>
Net assets	<u>514,541</u>	<u>950,687</u>
Capital and reserves		
Share capital	28,550	28,550
Reserves	292,683	726,638
	<u>321,233</u>	<u>755,188</u>
Equity attributable to owners of the Company	321,233	755,188
Non-controlling interests	193,308	195,499
	<u>514,541</u>	<u>950,687</u>
Total equity	<u>514,541</u>	<u>950,687</u>

Notes:

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The principal activities of the Company and its subsidiaries (together the “Group”) are involved in the provision of property development and leasing as well as tourism park operations and other service.

The functional currency of the Company is Renminbi (“RMB”), and for the purpose of more convenience to the readers of the condensed consolidated financial statements, the condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”).

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure provisions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020.

Going concern

These condensed consolidated financial statements have been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in future and the success of the below plans and measures in view of the excess of current liabilities over current assets.

The Group reported a net loss attributable to the owners of the Company of approximately HK\$444.8 million (six months ended 30 June 2020: approximately HK\$209.1 million) for the six months ended 30 June 2021. At 30 June 2021, the Group’s current liabilities exceeded its current assets by approximately HK\$3,095.1 million (31 December 2020: approximately HK\$2,248.8 million). As at the same date, the Group’s had bank and other borrowings and convertible bonds and bonds payables amounted to approximately HK\$5,446.6 million (31 December 2020: approximately HK\$5,151.3 million), of which current borrowings amounted to approximately HK\$5,033.5 million (31 December 2020: approximately HK\$4,337.7 million), while its cash and cash equivalents amounted to approximately HK\$10.8 million (31 December 2020: approximately HK\$10.8 million) only. The financial resources available to the Group as at 30 June 2021 and up to the date of approval of the condensed consolidated financial statements for issuance may not be sufficient to satisfy the above operating cash flow requirements.

At 30 June 2021, the Group is subjected to several legal claims amounted to approximately HK\$4,624.0 million (31 December 2020: approximately HK\$4,143.9 million), mainly in relation to disputes under construction contracts in respect of its various property development projects and defaults of repayment of several bank and other borrowings, which arose during the normal course of business. In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, property, plant and equipment, right-of-use asset, properties under development for sale and properties held for sale in an aggregate amount of approximately HK\$5,624.4 million (31 December 2020: approximately HK\$5,580.9 million) and the withdrawal of bank deposits of approximately HK\$7.7 million (31 December 2020: approximately HK\$13.0 million) as at 30 June 2021. Provision for litigation and compensation of approximately HK\$304.5 million and approximately HK\$80.4 million (31 December 2020: approximately HK\$189.1 million and approximately HK\$59.0 million) respectively, other than the liabilities already recognised, has been made based on best estimation on the outcomes of the disputes by the management in consideration of the development of negotiations with the creditors and advice sought from the independent legal advisors and internal legal counsel.

At 30 June 2021, loan from an asset management company with principal of HK\$3,016.5 million (31 December 2020: approximately HK\$2,982.3 million) and interest payable of approximately HK\$387.4 million (31 December 2020: approximately HK\$254.0 million) (the “Overdue Borrowings”) were overdue. As the Group failed to repay the loan in accordance with the repayment schedule for the year ended 31 December 2020 and the period ended 30 June 2021, the loan has been considered as default and became immediately due in accordance with terms of loan agreement. Hence, the entire principal of HK\$3,016.5 million together with interest payable of approximately HK\$387.4 million were classified as current liabilities as at 30 June 2021.

As stipulated in the relevant loan and financing agreements in respect of certain borrowings of the Group other than those mentioned above, the default of the guarantors may result in default of the Group’s borrowings. As a result of the guarantor’s default during the year ended 31 December 2020, the principal amount of a borrowing of approximately HK\$316.2 million was considered to be default (“Cross-default Borrowing”) with the entire amount of this borrowing became immediately overdue since then and has been classified as current liabilities as at 30 June 2021.

The Group is in active negotiations with the lender in respect of the Overdue Borrowings for a debt restructuring so as to settle the Overdue Borrowings by using the proceeds from new borrowing plans. The Group is also negotiating with the Cross-default Borrowing lender to renew the relevant borrowing. The Group is confident that agreements will be reached in due course.

In the opinion of the directors of the Company, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards and pursuant to the terms of the construction contracts, the Group has the right not to certify those construction work claimed by the contractors.

Because of the aforementioned actions taken, management is confident that the lender(s) of the Overdue Borrowings and Cross-default Borrowing will not enforce their rights of requesting for immediate repayment.

All the above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken by the Group to mitigate its liquidity pressure and to improve its financial position which include, but are not limited to, the followings:

- i. The Group has been actively negotiating with certain financial institutions and identifying various options for financing the Group's working capital, repayments of the overdue borrowings as well as the commitments in the foreseeable future;
- ii. The Group will seek to accelerate the pre-sales and sales of its properties under development and completed properties. Overall, the Group expects to gradually launch pre-sales of properties for two major projects starting from the third and fourth quarter of 2021 respectively;
- iii. The Group has been actively negotiating with a number of financial institutions for renewal and extension of bank borrowings and credit facilities;
- iv. The Group will continue to take active measures to control administrative costs through various channels, including human resources optimisation, management remuneration adjustments and containment of capital expenditures; and
- v. The Group has sought advice from the independent legal advisors or internal legal counsel for the outstanding legal claims that are subjected to legal proceedings and/or appeal in relation to construction contracts under dispute and appropriate actions are timely executed.

The directors are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2021. Accordingly, the directors believe that it is appropriate to prepare the condensed consolidated financial statements of the Company on a going concern basis. Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the followings:

- i. Successful obtaining new sources of financing as and when needed;
- ii. Successful accelerating the pre-sales and sales of properties under development and completed properties and speeding up the collection of outstanding sales proceeds, and controlling costs and capital expenditure so as to generate adequate net cash inflows;

- iii. Successful negotiations with the lenders for renewal of or extension for repayments beyond year 2022 for those borrowings that (a) are scheduled for repayment (either based on the original agreements or the existing arrangements) in next twelve months; and (b) were overdue as at 30 June 2021 because of the Group's failure to repay the principal on or before the scheduled repayment dates; and
- iv. Successful persuading the Group's existing lenders not to take action to demand for immediate repayment of the defaulted borrowings in next twelve months.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, which are measured at fair values.

The accounting policies used in preparing the condensed consolidated financial statements are consistent with those used in the Group's consolidated financial statements for the year ended 31 December 2020, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2021 as described below.

Amendments to HKAS 39,
HKFRSs 4, 7, 9 and 16

Interest Rate Benchmark Reform – Phase 2

The adoption of this amendment to HKFRSs and HKASs did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior periods.

4. REVENUE

For the six months ended 30 June 2021 (Unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from contracts with customers within HKFRS 15			
Recognised at a point in time			
Sales of properties	31,352	–	31,352
Entrance fee, food and beverage	–	3,385	3,385
	<u>31,352</u>	<u>3,385</u>	<u>34,737</u>
Revenue from other sources			
Gross rental income from investment properties	<u>2,361</u>	–	<u>2,361</u>
Total revenue generated in the PRC	<u><u>33,713</u></u>	<u><u>3,385</u></u>	<u><u>37,098</u></u>

For the six months ended 30 June 2020 (Unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from contracts with customers within HKFRS 15			
Recognised at a point in time			
Sales of properties	1,445	–	1,445
Entrance fee, food and beverage	–	1,424	1,424
	<u>1,445</u>	<u>1,424</u>	<u>2,869</u>
Revenue from other sources			
Gross rental income from investment properties	<u>8,342</u>	–	<u>8,342</u>
Total revenue generated in the PRC	<u><u>9,787</u></u>	<u><u>1,424</u></u>	<u><u>11,211</u></u>

5. SEGMENT INFORMATION

Information reported to the Group's executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focused on the types of goods or services delivered or provided. The Group's reportable segments for the CODM's purposes are (i) property development and leasing and (ii) tourism park operations. No analysis of segment asset and segment liability is presented as such information is not regularly provided to the CODM for the purposes of resources allocation and performance assessment.

Segment revenue and results

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

For the six months ended 30 June 2021 (Unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customer and segment revenue	<u>33,713</u>	<u>3,385</u>	<u>37,098</u>
Reportable segment results	<u>(230,523)</u>	<u>(2,823)</u>	<u>(233,346)</u>
Unallocated income and expenses			
Other gains and losses			(134,986)
Other income			6,931
Share of results of joint ventures			(24,046)
Administrative expenses			(1,917)
Finance costs			<u>(64,440)</u>
Loss before tax			<u><u>(451,804)</u></u>

For the six months ended 30 June 2020 (Unaudited)

	Property development and leasing <i>HK\$'000</i>	Tourism park operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customer and segment revenue	<u>9,787</u>	<u>1,424</u>	<u>11,211</u>
Reportable segment results	<u>(79,957)</u>	<u>(5,982)</u>	<u>(85,939)</u>
Unallocated income and expenses			
Other gains and losses			(52,265)
Other income			13,925
Share of results of joint ventures			(9,935)
Administrative expenses			(19,162)
Finance costs			<u>(64,657)</u>
Loss before tax			<u><u>(218,033)</u></u>

6. FINANCE COSTS

	Six months ended	
	30.6.2021	30.6.2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest expenses on:		
– Bank and other borrowings	196,434	154,920
– Convertible bonds and bonds	64,352	51,939
– Lease liabilities	159	293
	<u>260,945</u>	<u>207,152</u>
Less: Borrowing costs capitalised in properties under development for sale, investment properties under construction and construction in progress	<u>–</u>	<u>(142,495)</u>
	<u>260,945</u>	<u>64,657</u>

7. LOSS BEFORE TAX

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

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gross rental income from investment properties	(2,361)	(8,342)
Less: Direct operating expenses, as included in selling expenses	<u>332</u>	<u>1,649</u>
	<u>(2,029)</u>	<u>(6,693)</u>
Other items		
Depreciation of property, plant and equipment	1,304	2,216
Depreciation of right-of-use assets	<u>1,575</u>	<u>3,753</u>

8. INCOME TAX CREDIT

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Deferred Tax		
PRC Enterprise Income Tax ("EIT") and Land Appreciation Tax ("LAT")	<u>(3,418)</u>	<u>(8,314)</u>

No provision for Hong Kong Profit Tax had been provided as the Group did not have any assessable profit from Hong Kong for the six months ended 30 June 2021 and 2020.

No provision for EIT had been provided as the Group's subsidiaries in the PRC incurred a loss for taxation purpose for the six months ended 30 June 2021 and 2020.

The provision of PRC LAT was estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT had been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

No deferred tax liabilities for undistributed profits of the PRC subsidiaries have been recognised as the directors are of the opinion that there is no plan of dividend distribution out of the PRC in the foreseeable future by these PRC subsidiaries. As at 30 June 2021 and 31 December 2020, the aggregate undistributed profits of the PRC subsidiaries were approximately HK\$845,022,000 and HK\$1,010,600,000 respectively with corresponding unrecognised deferred tax liabilities amounted to approximately HK\$42,251,000 and HK\$50,530,000 respectively.

9. DIVIDENDS

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2021 and 2020.

10. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company		
for the purpose of basic and diluted loss per share	<u><u>(444,802)</u></u>	<u><u>(209,060)</u></u>
	Six months ended	
	30.6.2021	30.6.2020
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of shares for the purposes		
of basic and diluted loss per share	<u><u>285,491</u></u>	<u><u>285,491</u></u>

The computation of diluted loss per share for the six months ended 30 June 2021 and 2020 did not assume the conversion of the Company's convertible bonds since its assumed exercise would result in a decrease in loss per share.

It also did not assume the exercise of share options under the Company's share option scheme since its assumed exercise would have anti-dilutive effect on loss per share for the six months ended 30 June 2021 and 2020.

11. TRADE RECEIVABLES

	30.6.2021	31.12.2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	6,730	1,567
Less: allowance for credit losses	—	(1,461)
	<u>6,730</u>	<u>106</u>
	<u>6,730</u>	<u>106</u>

In respect of revenue arising from sales of properties and property leasing, the Group normally does not grant any credit term to its customers. The ageing analysis of trade receivables (net of allowance for credit losses) by invoice date is as follow:

	30.6.2021	31.12.2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Current to 90 days	6,640	106
Over 90 days	90	—
	<u>6,730</u>	<u>106</u>
	<u>6,730</u>	<u>106</u>

12. TRADE AND OTHER PAYABLES AND ACCRUALS

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade and bills payables	737,822	730,071
Other payables, accruals and deposits received	108,156	99,650
Provision for litigation (<i>Note i</i>)	304,513	189,116
Provision for compensation (<i>Note ii</i>)	80,355	58,977
Provision for redundancy	1,000	989
	<u>1,231,846</u>	<u>1,078,803</u>

Trade payables comprise construction costs payable and other project-related expenses payable. The average credit period in purchases of goods is 120 days (31 December 2020: 120 days).

The ageing analysis of trade and bills payables by invoice date at the end of reporting period is as follows:

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 – 180 days	4,094	110,498
181 – 365 days	108,711	27,719
Over 365 days	625,017	591,854
	<u>737,822</u>	<u>730,071</u>

Notes:

- (i) The provision for litigation represented provision made, other than the trade and other payables already recognised, in relation to disputes under construction contracts in respect of the Group's various property development projects and defaults of repayment of bank and other borrowings. The provision was made based on best estimation on the outcomes of the disputes in consideration of the development of negotiations with the creditors and advice sought from the independent legal advisors and internal legal counsel.
- (ii) The provision for compensation represented compensation to end customers of properties sales due to late delivery of real estate certificates in accordance with the sales and purchase agreements. Additional provision amounted to approximately HK\$21,378,000 was recognised for the six months ended 30 June 2021 (Year ended 31 December 2020: approximately HK\$46,964,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30 June 2021, bank balances and cash of the Group amounted to approximately HK\$10.8 million (31 December 2020: HK\$10.8 million). Cash and cash equivalents were mainly denominated in RMB and HK\$. The Group's total current assets as at 30 June 2021 amounted to approximately HK\$4,916.0 million (31 December 2020: HK\$4,862.5 million), which comprised properties under development for sale, completed properties held for sale, inventories, trade receivables, other receivables, deposits and prepayments, amounts due from related companies, other current assets, bank balances and cash. The Group's total current liabilities as at 30 June 2021 amounted to approximately HK\$8,011.0 million (31 December 2020: HK\$7,111.3 million), which comprised trade and other payables and accruals, contract liabilities, amounts due to related companies and a joint venture, lease liabilities, tax payable, bank and other borrowings – within one year and convertible bonds and bonds. Bank and other borrowings were denominated in RMB only. Bank and other borrowings of HK\$696.5 million were obtained at fixed rate.

As at 30 June 2021, the Group's gearing ratio was approximately 16.7 times (31 December 2020: 8.5 times) based on total liabilities of approximately HK\$8,593.9 million (31 December 2020: HK\$8,098.8 million) and total equity of approximately HK\$514.5 million (31 December 2020: HK\$950.7 million).

Going Concern and Mitigation Measures

In order to meet its financial obligations as and when they fall due within the next twelve months and improve the Group's current ratio, the directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which include:

- i. The Group has been actively negotiating with certain financial institutions and identifying various options for financing the Group's working capital, repayments of the overdue borrowings as well as the commitments in the foreseeable future;
- ii. The Group will seek to accelerate the pre-sales and sales of its properties under development and completed properties. Overall, the Group expects to gradually launch pre-sales of properties for Hengyang DreamEast Resort and DreamEast Jiashan projects starting from the third quarter and fourth quarter of 2021 respectively;

- iii. The Group has been actively negotiating with a number of financial institutions for renewal and extension of bank borrowings and credit facilities;
- iv. The Group will continue to take active measures to control administrative costs through various channels including human resources optimisation and management remuneration adjustments and containment of capital expenditures; and
- v. The Group has sought advice from the independent legal advisors or internal legal counsel for the outstanding legal claims that are subjected to legal proceedings and/or appeal in relation to construction contracts under dispute and appropriate actions are timely executed.

Currency and Financial Risk Management

With the majority of the Group's businesses transacted in RMB and HK\$, the aforesaid currencies are defined as the functional currency of the Company and some subsidiaries respectively. Apart from certain bank balances and cash and bonds denominated in foreign currencies, the Group is not subject to any significant risk from fluctuations in exchange rates. No currency hedging arrangement had been made by the Group during the reporting period. The Group will closely monitor and manage its exposure to fluctuation in foreign exchange rates.

Pledge of Assets

As at 30 June 2021, properties under development for sale with carrying amount of approximately HK\$3,570.7 million (31 December 2020: HK\$3,530.1 million), investment properties with carrying amount of approximately HK\$2,625.9 million (31 December 2020: HK\$2,609.7 million), completed properties held for sale with carrying amount of approximately HK\$275.5 million (31 December 2020: HK\$301.0 million), property, plant and equipment with carrying amount of approximately HK\$92.6 million (31 December 2020: HK\$92.5 million) and right-of-use assets with carrying amount of approximately HK\$33.6 million (31 December 2020: HK\$33.9 million) were pledged to certain banks, a financial institution and a related party to secure borrowings obtained from the aforesaid parties.

Significant Investment Held

During the six months ended 30 June 2021, the Group held approximately 42% effective equity interests of 天洋地產(唐山)有限公司 (SkyOcean Real Estate (Tangshan) Co., Ltd.***) and 51% equity interests of 天茂文化發展(江陰)有限公司 (TianMao Cultural Development (Jiangyin) Co., Ltd.***)).

Material Acquisition and Disposal of Subsidiaries and Associates

During the six months ended 30 June 2021, there were no material acquisitions or disposals of subsidiaries and associates by the Group.

Management and Staff

As at 30 June 2021, the total number of employees (including both full time and part time) was approximately 145. Total staff costs amounted to approximately HK\$9.2 million (six months ended 30 June 2020: HK\$21.0 million). The Group offers competitive remuneration packages, together with discretionary bonuses to its staff, based on industry practices and individual and Group's performances. The Group also offers training courses and continuous education sessions as part of the Group's emphasis on staff training and development.

Legal disputes

As at 30 June 2021, the Group is subjected to several legal claims in the aggregate amount of approximately HK\$4,624.0 million (31 December 2020: HK\$4,143.9 million), involving (i) disputes under construction contracts in the amount of approximately HK\$863.8 million (31 December 2020: HK\$501.5 million) in respect of its various property development projects; (ii) defaults of repayment of several bank and other borrowings in the amount of approximately HK\$3,674.4 million (31 December 2020: HK\$3,590.6 million); and (iii) other miscellaneous legal claims in the amount of approximately HK\$85.8 million (31 December 2020: HK\$51.8 million) which arose during the normal course of business.

In these legal proceedings, the Group has received court orders to restrict the disposition of certain investment properties, property, plant and equipment, right-of-use assets, properties under development for sale and properties held for sale in an aggregate amount of approximately HK\$5,624.4 million (31 December 2020: HK\$5,580.9 million) and the withdrawal of bank deposits of approximately HK\$7.7 million (31 December 2020: HK\$13.0 million) as at 30 June 2021.

In the opinion of the directors, the claims made by the construction contractors are mainly related to construction works that did not meet the required standards pursuant to the terms of the construction contracts, the Group has the right not to certify those construction works claimed by the contractors. In addition, the Group has already made or is in the process of making counter claims for compensation from the construction contractors for causing delay in the delivery of the properties to the end customers of the Group.

The management has sought legal advice from the independent legal advisors or internal legal counsel on these legal proceedings and the Group has provided construction cost liabilities due to litigation amounted to approximately HK\$77.7 million as at 30 June 2021 (31 December 2020: HK\$117.7 million) in relation to the above mentioned construction contracts under dispute.

At 30 June 2021, other outstanding claims that are subjected to legal proceedings and/or appeal amounted to approximately HK\$3,760.2 million (31 December 2020: HK\$3,642.5 million) in aggregate. For legal claims other than disputes under construction contracts, provision for litigation on other claims amounted to approximately HK\$35.3 million (31 December 2020: HK\$61.1 million) has been made in respect of these claims at 30 June 2021. The directors of the Company are of the opinion that the Group has reasonable ground to defense those legal claims and consider that those legal claims would not result in any material adverse effects on the financial position of the Group.

The details of defaults of repayment of several bank and other borrowings in the amount of HK\$3,674.4 million are as follow:

(1) 北京天洋基業投資有限公司 (Beijing SkyOcean Foundation Investments Co., Ltd) (“Beijing SkyOcean”)**

On 10 January 2017, Beijing SkyOcean, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with 恒豐銀行股份有限公司北京分行 (Hengfeng Bank Securities Co., Ltd. Beijing Branch**) (“Hengfeng Bank”), pursuant to which Hengfeng Bank granted a term loan in the amount of RMB2,800.0 million (equivalent to approximately HK\$3,327.0 million) to Beijing SkyOcean for a term of 5 years for the purpose of financing the development and construction cost of a parcel of land in Fangshan District, Beijing, the PRC, under the COMB+ project (the southern zone of “Fangshan Land and CIP”). The southern zone of Fangshan Land was charged to Hengfeng Bank as one of the securities for the repayment of the loan.

On 28 February 2020, Beijing SkyOcean was informed that all rights under the loan and the relevant securities charged were transferred from Hengfeng Bank to 山東省金融資產管理股份有限公司 (Shandong Financial Assets Management Securities Co., Ltd.***) (“Shandong Assets”).

On 13 August 2020, 北京市第二中級人民法院 (Second Intermediate People’s Court of Beijing**) (the “Beijing Court”) issued an enforcement judgement, pursuant to which it made an order that, amongst other things, Shandong Assets has the right to enforce the security of the loan by auctioning or selling the southern zone of Fangshan Land and CIP and enjoy priority to the proceeds of the auction or the sale (as the case may be) (“Enforcement Judgement”). 天洋控股集團有限公司 (SkyOcean Holding Group Co., Ltd.**), a company beneficially owned as to 80% by Mr. Zhou Zheng and being one of the guarantors of the loan (the “Guarantor”), applied to the Beijing Court for an order that the Enforcement Judgement should not be enforced, which was rejected by the Beijing Court on 13 November 2020.

In December 2020, Beijing SkyOcean was informed by Shandong Assets that (i) it intended to enforce the security over the southern zone of Fangshan Land and CIP by putting it on public auction (the “Auction”) in satisfaction of the loan (the “Enforcement Action”); and (ii) an application has been made to the Beijing Court for a valuation of the southern zone of Fangshan Land and CIP, which shall be relied upon by Shandong Assets as the base price of the Auction. Based on the valuation report dated 2 December 2020 prepared by an independent professional valuer employed by the Beijing Court, the valuation of the southern zone of Fangshan Land and CIP as at 23 October 2020 was approximately RMB2,798.7 million (equivalent to approximately HK\$3,325.3 million) (the “Valuation”).

On 13 January 2021, the Guarantor filed an application to the Beijing Court to object the Valuation (the “Application”), and as informed by the Beijing Court in early March 2021, the Beijing Court has appointed 北京房地產估價師和土地估價師與不動產登記代理人協會 (Beijing Real Estate Valuer and Land Valuer and Immovable Asset Registration Agency Association**) to provide a professional technical assessment (the “Assessment”) on the merit of the Application.

The result of the Assessment was released on 30 March 2021 and concluded that the Application was without merit. On 15 April 2021, the Beijing Court also issued a notice to Beijing SkyOcean that the Auction was scheduled to take place at 阿里巴巴司法拍賣網路平台 (Alibaba Judicial Auction Network Platform**) of the Beijing Court (the “Platform”) from 27 May 2021 to 28 May 2021.

Based on the information disclosed on the Platform after the close of the Auction on 28 May 2021, no bid was received for the southern zone of Fangshan Land and CIP and the Auction was unsuccessful.

According to legal procedures, the case was automatically entered into the sell off process after the unsuccessful auction. The sell off process of the southern zone of Fangshan Land and CIP took place at the Platform from 30 July 2021 to 28 September 2021.

Based on the information disclose on the Platform, no bid was received until the report date.

On 30 June 2021, Beijing SkyOcean was in default of an outstanding principal of approximately RMB2,510 million (equivalent to approximately HK\$3,016.5 million) (31 December 2020: approximately RMB2,510 million equivalent to approximately HK\$2,982.3 million) and the accrued interest of approximately RMB322.4 million (equivalent to approximately HK\$387.4 million) (31 December 2020 approximately HK\$213.7 million equivalent to approximately HK\$254 million).

At 30 June 2021, the southern zone of Fangshan Land and CIP was recognised as properties under development for sale amounted to approximately HK\$2,833 million (31 December 2020 approximately HK\$2,801 million).

The Company is in the process of obtaining a new loan from an independent financial institution for repayment of the Shandong Asset's loan and nothing is concluded up to the date of approval of these condensed consolidated financial statements.

(2) 湖南夢東方文化發展有限公司 (Hunan DreamEast Cultural Development Co., Ltd.)** (“Hunan DreamEast”)

On 15 May 2018, Hunan DreamEast, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with 北京銀行股份有限公司長沙分行 (Bank of Beijing Co., Ltd. Changsha Branch**) (“Bank of Beijing”), pursuant to which Bank of Beijing granted a 5-years term loan in the amount of approximately RMB320.0 million (equivalent to approximately HK\$364.8 million) to Hunan DreamEast for the purpose of financing the development and construction cost of a parcel of land in Hengyang, the PRC, under the Hengnan Project (the “Hengyang Land”).

Hunan DreamEast was in default of an outstanding principal of approximately RMB263.1 million (equivalent to approximately HK\$312.6 million) in 2020. Without notice to Hunan DreamEast, Bank of Beijing filed a civil claim of approximately RMB263.1 million against Hunan DreamEast with 湖南省長沙市中級人民法院 (Intermediate People's Court of Changsha, Hunan Province**) on 17 November 2020. Hunan DreamEast is in the process of negotiation with Bank of Beijing on revising the repayment schedule and nothing is concluded up to the date of approval of these condensed consolidated financial statements.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for certain deviations which are summarised below:

Code Provisions B.1.2 and C.3.3

Code Provisions B.1.2 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the remuneration committee (“Remuneration Committee”) adopted by the Company are in compliance with Code Provision B.1.2 of the CG Code except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to Executive Directors and senior management under the code provision).

The terms of reference of the Audit Committee adopted by the Company are in compliance with Code Provision C.3.3 of the CG Code except that the Audit Committee (i) shall recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services; (ii) only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have an effective internal control system; and (iii) can promote (as opposed to ensure under the code provision) the co-ordination between the internal and external auditors, and check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced.

Further details of the reasons for relevant deviations of the terms of reference were set out in the Corporate Governance Report contained in the Company's Annual Report for the financial year ended 31 December 2020. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to the relevant terms of reference as adopted and amended by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2021.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 and the corresponding accounting principles and practices adopted by the Group.

By order of the Board
DreamEast Group Limited
Zhou Jin
Chairman

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises Ms. Zhou Jin (Chairman) and Mr. Yang Lei being the executive Directors, and Dr. Chen Guanglei, Dr. Meng Xiaosu, Mr. Yang Buting and Mr. Zhao Daxin being the independent non-executive Directors.

*** The English translation of the chinese name of the relevant entity included in this announcement is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its chinese name.*