

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Star Group Company Limited

星星集團有限公司

(Carrying on business in Hong Kong as SGCL)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the “**Board**”) of directors (the “**Director(s)**”) of Star Group Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 together with the comparative figures as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended	
	NOTES	30.6.2023 HK\$'000 (Unaudited)	30.6.2022 HK\$'000 (Unaudited)
Revenue	4	160,294	188,990
Cost of sales and services		(131,078)	(124,978)
Gross profit		29,216	64,012
Other income	5	13,469	12,406
Gain on change in fair value of investment properties		—	50,928
Gain on change in fair value of financial assets at fair value through profit or loss	13	455	838
Selling expenses		(10,272)	(8,592)
Administrative expenses		(55,219)	(48,971)
Finance costs	6	(7,454)	(6,660)
Share of results of an associate		11	—
(Loss)/profit before tax	7	(29,794)	63,961
Income tax credit/(expense)	8	206	(3,576)
(Loss)/profit for the period		(29,588)	60,385
Other comprehensive income for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		604	2,671
Total comprehensive income for the period		(28,984)	63,056

	<i>NOTES</i>	Six months ended	
		30.6.2023	30.6.2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company		(29,737)	61,424
Non-controlling interests		149	(1,039)
		<u>(29,588)</u>	<u>60,385</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		(29,133)	64,248
Non-controlling interests		149	(1,192)
		<u>(28,984)</u>	<u>63,056</u>
(Loss)/earnings per share			
— Basic (<i>HK cents</i>)	<i>10</i>	<u>(4.64)</u>	<u>9.58</u>
— Diluted (<i>HK cents</i>)	<i>10</i>	<u>(4.64)</u>	<u>4.37</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>NOTES</i>	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Non-current Assets			
Property, plant and equipment	<i>11</i>	6,481	4,745
Investment properties		883,038	883,038
Investment in an associate		15,435	15,424
Investment in a joint venture		—	—
Deferred tax assets		4,118	4,029
Loan receivables	<i>12</i>	67,493	76,355
Deposits and other receivables	<i>14</i>	6,215	102,426
Amount due from an associate		37,589	—
Amount due from a joint venture		2,574	2,750
Financial assets at fair value through profit or loss	<i>13</i>	4,791	6,129
		1,027,734	1,094,896
Current Assets			
Inventories		12,471	10,808
Properties held for sale		3,946,903	3,841,594
Trade and other receivables, deposits and prepayments	<i>14</i>	67,928	64,124
Financial assets at fair value through profit or loss	<i>13</i>	10,773	10,773
Amounts due from related companies		—	92
Tax recoverable		—	404
Stakeholder's accounts		156,962	17,916
Pledged bank deposits		10,000	10,000
Bank balances and cash		109,045	57,501
		4,314,082	4,013,212
Current Liabilities			
Trade and other payables	<i>15</i>	236,564	331,296
Contract liabilities		219,301	19,216
Amount due to a director		140,506	143,621
Amounts due to related companies		2	9
Lease liabilities		13,968	14,945
Tax liabilities		4,804	14,914
Borrowings	<i>16</i>	2,863,716	2,691,858
		3,478,861	3,215,859
Net Current Assets		835,221	797,353
Total Assets less Current Liabilities		1,862,955	1,892,249

	<i>NOTES</i>	30.6.2023 HK\$'000 (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Non-current Liabilities			
Lease liabilities		28,935	32,020
Convertible bonds — liability component	<i>17</i>	91,039	88,208
Deferred tax liabilities		54,635	54,691
		<u>174,609</u>	<u>174,919</u>
Net Assets		<u>1,688,346</u>	<u>1,717,330</u>
Capital and Reserves			
Share capital	<i>18</i>	6,415	6,415
Reserves		1,693,977	1,723,110
		<u>1,700,392</u>	<u>1,729,525</u>
Equity attributable to owners of the Company		(12,046)	(12,195)
Non-controlling interests		<u>1,688,346</u>	<u>1,717,330</u>
Total Equity		<u>1,688,346</u>	<u>1,717,330</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements of Star Group Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accounts (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

2. PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2022 (“**2022 annual financial statements**”).

APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 1 and Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction
HKFRS 17	Insurance Contracts and the related Amendments

The Group has not applied any new or amended HKFRS that is not yet effective for the current period.

The adoption of these amendments has no material impact on the Group’s financial statements.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 annual financial statements.

4. REVENUE AND SEGMENT INFORMATION

	Six months ended	
	30.06.2023	30.06.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sales of properties	118,619	149,910
Provision of property management	5,861	5,181
Provision of construction and fitting out works	3,185	2,012
Trading of fine wine	5,717	2,724
Service income from provision of media production services	—	359
	133,382	160,186
Revenue from other sources		
Rental income from leasing of:		
— investment properties	614	767
— service apartments	1,655	1,299
— storage and workshop	19,487	21,993
— wine cellar	3,197	3,255
Interest income from provision of finance	1,959	1,490
	26,912	28,804
Total revenue	160,294	188,990

(A) Disaggregation of Revenue from Contracts with Customers

Segments	Property development		Provision of property management services		Trading of fine wine		Construction and fitting out works		Media production services		Total	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30.6.2023	30.6.2022	30.6.2023	30.6.2022	30.6.2023	30.6.2022	30.6.2023	30.6.2022	30.6.2023	30.6.2022	30.6.2023	30.6.2022
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of properties	118,619	149,910	—	—	—	—	—	—	—	—	118,619	149,910
Provision of property management	—	—	5,861	5,181	—	—	—	—	—	—	5,861	5,181
Provision of construction and fitting out works	—	—	—	—	—	—	3,185	2,012	—	—	3,185	2,012
Trading of fine wine	—	—	—	—	5,717	2,724	—	—	—	—	5,717	2,724
Provision of media production services	—	—	—	—	—	—	—	—	—	359	—	359
Total	118,619	149,910	5,861	5,181	5,717	2,724	3,185	2,012	—	359	133,382	160,186
Geographical market												
Hong Kong	118,619	149,910	5,861	5,181	5,717	2,724	3,185	2,012	—	359	133,382	160,186
Timing of revenue recognition												
A point in time	118,619	149,910	—	—	5,717	2,724	—	—	—	—	124,336	152,634
Over time	—	—	5,861	5,181	—	—	3,185	2,012	—	359	9,046	7,552
Total	118,619	149,910	5,861	5,181	5,717	2,724	3,185	2,012	—	359	133,382	160,186

(B) Segment Information

The Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

1. Property development — sales of properties
2. Property investment — rental income from leasing of investment properties
3. Provision of property management services — provision of property management and security services
4. Construction and fitting out works — provision of construction and fitting out works
5. Provision of finance — provision of financing services to property buyers
6. Wine business — sales of fine wine and rental income from leasing of wine cellars
7. Media production services — provision of media production services in marketing, advertisement and organisation of music concerts

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

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2023	30.6.2022	30.6.2023	30.6.2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Property development	118,619	149,910	(6,121)	24,669
Property investment	21,756	24,059	450	54,354
Provision of property management services	5,861	5,181	(29)	1,930
Construction and fitting out works	3,185	2,012	164	270
Provision of finance	1,959	1,490	(3,345)	(2,892)
Wine business	8,914	5,979	(886)	1,183
Media production services	—	359	339	(116)
	<u>160,294</u>	<u>188,990</u>	<u>(9,428)</u>	<u>79,398</u>
Unallocated income			919	902
Unallocated expenses			(17,845)	(12,330)
Finance costs			(3,440)	(4,009)
(Loss)/profit before tax			<u>(29,794)</u>	<u>63,961</u>

Segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, administrative expenses and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	30.6.2023	31.12.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Segments assets		
Property development	4,276,449	4,044,592
Property investment	861,662	858,253
Provision of property management services	3,877	4,847
Construction and fitting out works	4,798	3,894
Provision of finance	94,435	102,321
Wine business	75,434	69,846
Media production services	853	961
	<hr/>	<hr/>
Total segment assets	5,317,508	5,084,714
Unallocated assets	24,308	23,394
	<hr/>	<hr/>
Consolidated total assets	<u>5,341,816</u>	<u>5,108,108</u>
Segments liabilities		
Property development	2,834,480	2,591,902
Property investment	465,908	479,751
Provision of property management services	809	502
Construction and fitting out works	14,265	11,593
Provision of finance	218,044	207,882
Wine business	90,242	54,932
Media production services	997	1,410
	<hr/>	<hr/>
Total segment liabilities	3,624,745	3,347,972
Unallocated liabilities	28,725	42,806
	<hr/>	<hr/>
Consolidated total liabilities	<u>3,653,470</u>	<u>3,390,778</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than financial assets at fair value through profit or loss, certain pledged bank deposits, bank balances and cash, and other corporate assets not attributable to the reportable segments; and
- all liabilities are allocated to operating segments other than certain borrowings and other corporate liabilities not attributable to the reportable segments.

5. OTHER INCOME

	Six months ended	
	30.6.2023	30.6.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest income earned on bank balances and pledged bank deposits	1,687	65
Temporary rental income from properties held for sales	6,729	9,522
Others	5,053	2,819
	<u>13,469</u>	<u>12,406</u>

6. FINANCE COSTS

	Six months ended	
	30.6.2023	30.6.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on:		
Borrowings	91,366	38,028
Advance from a director	4,537	3,684
Interest on lease liabilities	1,451	1,592
Imputed interest on convertible bonds	2,831	3,146
	<u>100,185</u>	<u>46,450</u>
Total borrowing costs	100,185	46,450
Less: amount capitalised in cost of qualifying assets	(92,731)	(39,790)
	<u>7,454</u>	<u>6,660</u>

Borrowing costs capitalised at rate ranging from 3.72% to 13.55% (for the six months ended 30 June 2022: 2.20% to 12.52%) per annum during the period arose on the specific and general borrowings for the expenditure on property development.

7. (LOSS)/PROFIT BEFORE TAX

	Six months ended	
	30.6.2023	30.6.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Directors' emoluments	2,046	1,105
Other staff costs		
— Salaries and other allowances	16,537	13,032
— Retirement benefit scheme contributions	687	700
	<u>19,270</u>	<u>14,837</u>
Total staff costs	19,270	14,837
Less: capitalised in properties held for sale	—	(1,144)
	<u>19,270</u>	<u>13,693</u>
Auditors' remuneration	227	431
Cost of inventories recognised as an expense	123,784	122,084
Depreciation of property, plant and equipment	650	494
Depreciation of right-of-use assets	1,092	344
Loss on dissolution of a subsidiary	—	202
Reversal of impairment loss of trade and lease receivables	—	(564)
	<u>227</u>	<u>(564)</u>

8. INCOME TAX (CREDIT)/EXPENSE

	Six months ended	
	30.6.2023	30.6.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax — current tax	(61)	3,616
Deferred taxation	(145)	(40)
	<u>(206)</u>	<u>3,576</u>

The group entities in Hong Kong are subject to Hong Kong Profits Tax. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The group entities in South Korea are subject to Korean Corporate Income Tax which comprises national and local taxes (collectively “**Korean Corporate Income Tax**”). Korean Corporate Income Tax is charged at the progressive rate from 10% to 25% on the estimated assessable profit of eligible entities derived worldwide. No provision on Korean Corporate Income Tax has been provided as there is no estimated assessable profits in financial period ended 30 June 2023.

9. DIVIDEND

During the current period, the directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2022.

The directors of the Company do not recommend the payment of any interim dividend for both the six months ended 30 June 2023 and 30 June 2022.

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	30.6.2023	30.6.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to owners of the Company for the purpose of basic (loss)/earnings per share	(29,737)	61,424
Effect of dilutive potential ordinary shares:		
— Interest on convertible bonds (net of tax) (<i>Note (b)</i>)	N/A	3,146
(Loss)/profit for the period attributable to owners of the Company for the purpose of diluted (loss)/earnings per share	(29,737)	64,570
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	641,498	641,498
Effect of dilutive potential ordinary shares:		
— Outstanding share opinions issued by the Company (<i>Notes (a) and (b)</i>)	N/A	N/A
— Convertible bonds (<i>Note (b)</i>)	N/A	836,000
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	641,498	1,477,498

Notes:

- (a) The computation of diluted earnings per share during the six months ended 30 June 2022 does not assume the exercise of the Company's all share options because the exercise price of those options was higher than the average market price for shares for the six months ended 30 June 2022.
- (b) For the six months ended 30 June 2023, no diluted loss per share was calculated as the potential dilutive ordinary shares arising from convertible bonds and share options have an anti-dilutive effect on the basic loss per share amount presented.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group spent approximately HK\$722,000 (for the six months ended 30 June 2022: approximately HK\$482,000) on plant and equipment and the Group disposed of plant and equipment of HK\$246,000 (for the six months ended 30 June 2022: Nil).

12. LOAN RECEIVABLES

	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Loan receivables (<i>Note</i>)	<u>77,518</u>	<u>85,974</u>
Analysis as:		
— Non-current portion	67,493	76,355
— Current portion (<i>note 14</i>)	<u>10,025</u>	<u>9,619</u>
	<u>77,518</u>	<u>85,974</u>

Note:

As at 30 June 2023 and 31 December 2022, the balance included loan receivables which were secured by the property units of the borrowers. Loan receivables amounting to HK\$77,518,000 (31 December 2022: HK\$81,904,000) were interest bearing at various rates ranging from Hong Kong prime rate quoted by the lending bank ("P") minus 2.25% to P (31 December 2022: P minus 2.25% to P) per annum; and as at 31 December 2022, an loan receivable amounting to HK\$4,070,000 was interest bearing at a fixed rate of 10% per annum. Loans are provided to the borrowers above at a range of 48% to 80% (31 December 2022: 48% to 80%) of sale consideration of the pledged property units. The directors of the Company consider that the fair values of the collaterals are higher than the carrying amount of loan receivables as at 30 June 2023 and 31 December 2022. As at 30 June 2023 and 31 December 2022, all the loan receivables are neither past due nor impaired.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	30.6.2023 HK\$'000 (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Unlisted investment fund	<i>(a)</i>	3,272	4,610
Unlisted participation note	<i>(b)</i>	1,519	1,519
Derivative financial instrument — redemption option	<i>(c)</i>	10,773	10,773
Total		15,564	16,902

Classified as:

Financial assets at fair value through profit
or loss (“FVTPL”):

— Non-current	4,791	6,129
— Current	10,773	10,773
	15,564	16,902

Notes:

- (a) As at 30 June 2023, the unlisted private equity fund is at a fair value of HK\$3,272,000 (31 December 2022: HK\$4,610,000). The Group redeemed 1,404 shares of the fund and received HK\$1,793,000 during the current period. The Group has recognised a fair value gain of HK\$455,000 (for the six months ended 30 June 2022: HK\$838,000) in respect of the changes in fair value in the profit or loss. The fair value of this unlisted fund investment was measured using valuation technique with significant unobservable inputs and hence was classified as level 3 of the fair value hierarchy.
- (b) As at 30 June 2023, the unlisted participation note is at a fair value of HK\$1,519,000 (31 December 2022: HK\$1,519,000). No change in fair value has been recognised in the profit or loss (for the six months ended 30 June 2022: Nil). The fair value of this unlisted participation note was measured using valuation technique with significant unobservable inputs and hence was classified as level 3 of the fair value hierarchy.
- (c) The balance represents the redemption derivative component in relation to the convertible bonds (note 17).

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<i>Notes</i>	30.6.2023 HK\$'000 (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Trade receivables	<i>(a)</i>	6,919	5,661
Lease receivables	<i>(a)</i>	4,061	3,532
		10,980	9,193
Less: Allowance for credit losses		(1,388)	(1,388)
		9,592	7,805
Deposits and other receivables, and prepayments			
— Loan receivable (<i>note 12</i>)		10,025	9,619
— Loan interest receivables		33	168
— Rental deposits and other receivables	<i>(b)</i>	47,567	45,772
— Prepayments		6,926	4,145
— Deposits paid	<i>(c)</i>	—	99,041
		64,551	158,745
		74,143	166,550
Classified as:			
— Non-current		6,215	102,426
— Current		67,928	64,124
		74,143	166,550

Notes:

- (a) Customers from trading of fine wine are granted with credit term of 7 days. No credit term is allowed for trade receivables from property management services, construction and fitting out works, media production services and lease receivables.

The following is an aged analysis of trade and lease receivables, net of allowance for credit losses, presented based on invoice dates.

	30.6.2023	31.12.2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0-30 days	3,543	2,768
31-90 days	1,547	1,812
91-180 days	1,039	1,451
181-365 days	965	1,163
Over 365 days	2,498	611
	<u>9,592</u>	<u>7,805</u>

All of the Group's trade receivables and lease receivables were past due at the end of both reporting periods. The Groups hold security deposits as collaterals over the lease receivables.

- (b) As at 30 June 2023, the balance included:
- (i) a loan to the shareholder of the joint venture of the Group amounting to HK\$2,250,000 (31 December 2022: HK\$2,250,000) which is interest bearing at 5% per annum and repayable in year 2024.
 - (ii) other receivables with carrying amounts of HK\$10,000,000 (31 December 2022: HK\$11,250,000) and HK\$3,965,000 (2022: HK\$1,195,000) are interest bearing at 1% and 0.003% per annum, respectively. The former balance is repayable within 1 year and the latter balance is repayable by monthly instalments up to November 2032.
- (c) As at 31 December 2022, the Group paid deposits with an aggregate amount of HK\$99,041,000 to numerous sellers and vendors for the acquisition of a piece of land and prepaid construction costs for a property project in South Korea. The title of the land has been obtained and transferred to the associate of the Group in March 2023. The deposits paid were classified as non-current assets as at 31 December 2022.

15. TRADE AND OTHER PAYABLES

	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Trade payables (<i>note a</i>)	7,292	2,340
Retention payables (<i>note b</i>)	48,536	53,028
Other payables, deposits received and accruals		
— Rental and other deposits received	31,319	30,503
— Accrued construction costs	105,179	143,967
— Accrued bonus	208	1,780
— Accrued agency commission	3,031	3,092
— Accrued management fees	1,580	2,190
— Accrued legal and professional fees	2,766	5,134
— Interest payables	—	6,525
— Received in advance of rental income	22,972	16,832
— Loans from shareholders of an associate (<i>note c</i>)	—	58,552
— Others	13,681	7,353
	<u>236,564</u>	<u>331,296</u>

Notes:

- (a) No credit terms are granted for all trade payables.

The following is an aged analysis of trade payables presented based on invoice dates.

	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
0-30 days	7,025	2,305
31-90 days	40	3
91-180 days	227	5
181-365 days	—	—
Over 365 days	—	27
	<u>7,292</u>	<u>2,340</u>

- (b) As at 30 June 2023, retention payables amounting to HK\$31,704,000 (31 December 2022: HK\$31,443,000) was aged within one year while the remaining amount of HK\$16,832,000 (31 December 2022: HK\$21,585,000) was aged one to two years. All retention payables as at 30 June 2023 and 31 December 2022 were expected to be paid or settled in less than twelve months from the end of the corresponding reporting period.

- (c) In connection with the shareholders' agreement entered into between a South Korean subsidiary of the Company and another two shareholders of the associate, the two shareholders agreed to make advances with an aggregate amount of HK\$58,552,000 as at 31 December 2022 to the subsidiary as initial funding to acquire a piece of land for the development of a property project in South Korea. The advances were interest-free, unsecured and repayable when the associate obtained a project financing loan. The advances were fully repaid during the period.

16. BORROWINGS

	30.6.2023	31.12.2022
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Borrowing from financial institutions	294,746	189,000
Bank borrowings	2,568,970	2,502,858
	<u>2,863,716</u>	<u>2,691,858</u>
Scheduled payment terms of bank borrowings and borrowing from a financial institution contain a repayment on demand clause (shown under current liabilities):		
— Within one year	1,391,979	1,382,753
— In more than one year but not more than two years	110,132	111,016
— In more than two years but not more than five years	109,928	110,479
— More than five years	27,204	5,665
	<u>1,639,243</u>	<u>1,609,913</u>
Scheduled payment terms of bank borrowings and borrowing from a financial institution without demand clause:		
— Within one year	<u>1,224,473</u>	<u>1,081,945</u>

The exposure of the Group's borrowings and the contractual maturity dates (or reset dates) are as follows:

	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Variable-rate borrowings:		
Within one year	2,416,453	2,275,698
In more than one year but not more than two years	110,131	111,016
In more than two years but not more than five years	109,928	110,479
More than five years	27,204	5,665
	2,663,716	2,502,858
Fixed-rate borrowings:		
Within one year	200,000	189,000
	2,863,716	2,691,858

The Group's variable-rate borrowings carrying interest at Hong Kong Interbank Offered Rate ("HIBOR"), Hong Kong Prime Lending Rate and three-month certificate of deposit rate in South Korea.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	30.6.2023 (Unaudited)	31.12.2022 (Audited)
Effective interest rates:		
— Fixed-rate borrowings	5.00%-7.50%	5.00%-7.50%
— Variable-rate borrowings	3.72%-13.55%	2.27%-13.59%

Bank borrowings are secured by the following assets of the Group:

	30.6.2023 <i>HK\$'000</i> (Unaudited)	31.12.2022 <i>HK\$'000</i> (Audited)
Properties held for sale		
— Under development for sale, at cost	3,484,390	3,260,638
— Completed, at cost	462,513	580,956
	3,946,903	3,841,594
Investment properties	834,675	834,675
Pledged bank deposits	10,000	10,000
	4,791,578	4,686,269

Certain credit facilities of the Group are subject to the fulfilment of covenants relating to certain financial ratios of the Group, total equity, the amount of capital expenditure incurred on development projects and shareholding of the Company's director, Mr. Joe Chan in the Company of not less than 60%. If the Group breaches the covenants, the drawn down facilities will become repayable on demand. The Group regularly monitors its compliance with these covenants.

As at 30 June 2023 and 31 December 2022, none of the bank covenants relating to drawn down facilities had been breached.

17. CONVERTIBLE BONDS

On 22 October 2020, the Company issued 3% convertible bonds with nominal value of HK\$418,000,000. The convertible bonds are perpetual in term and have no maturity date with a principal amount denominated in HK\$ of HK\$418,000,000 as part of the consideration for the acquisition. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK\$0.5 per conversion share (subject to the adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of the convertible bonds up to the date which falls on the 10th anniversary of the date of issue of the convertible bonds to the extent all or part of the convertible bonds remain outstanding.

The coupon shall accrue on the outstanding principal amount of the convertible bonds and be payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the date when the relevant coupon payment fall due by giving notice to the holders of the convertible bonds. In the opinion of directors, the liability component of the convertible bonds are regarded as non-current liabilities. The convertible bonds that contain liability, redemption option and conversion option components were classified separately into their respective items on initial recognition.

At the end of the reporting period, the fair value of the redemption option was determined by the difference between the fair value of equivalent convertible bonds with redemption option and without redemption option. The effective interest rate of the liability component on initial recognition and the subsequent recognition of interest expense on the convertible bonds was calculated using effective interest rate of 7.87% per annum. There was no redemption and conversion of the convertible bonds since its issuance.

The movements of the components of the convertible bonds during the period and prior year are set out below:

	Redemption derivative component <i>HK\$'000</i>	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2022 (Audited)	34,968	(81,769)	(313,698)	(360,499)
Effective imputed interest expense recognised	—	(6,439)	—	(6,439)
Change in fair value	(24,195)	—	—	(24,195)
As at 31 December 2022 (Audited)	10,773	(88,208)	(313,698)	(391,133)
Effective imputed interest expense recognised	—	(2,831)	—	(2,831)
As at 30 June 2023 (Unaudited)	10,773	(91,039)	(313,698)	(393,964)

The fair value measurement of the redemption option derivative component is a Level 3 fair value measurement.

The major inputs for the valuation of the fair value of the redemption option derivative component of the convertible bonds as at 30 June 2023 and 31 December 2022 are as follows:

	30.6.2023 (Unaudited)	31.12.2022 (Audited)
Share price	0.485	0.385
Conversion price	HK\$0.5	HK\$0.5
Risk-free rate	4.07%	3.67%
Volatility	55.55%	56.26%

18. SHARE CAPITAL

The movements in share capital of the Company are as follows:

	<i>Number of shares</i>	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2022, 31 December 2022 and 30 June 2023	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2022, 31 December 2022 and 30 June 2023	<u>641,498,000</u>	<u>6,415</u>

The new shares rank pari passu with the existing shares in all respects.

19. SUBSEQUENT EVENT

On 27 July 2023, a subsidiary of the Company (the “**Vendor**”) entered into a preliminary sale and purchase agreement with an independent third party purchaser (the “**Purchaser**”), pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of a subsidiary of the Vendor (the “**Target Company**”) and all debts owing by the Target Company to the Vendor or the Vendor’s directors and associates (if any) as at the completion date, at a total consideration of HK\$58,000,000. The transaction is expected to complete on or before 3 November 2023. Details of the transaction are set out in the Company’s announcement dated 27 July 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is principally engaged in property development; property investment for sale, rental or capital appreciation; provision of property management and security services; construction and fitting out works; provision of finance; fund investment and fund management; wine business which includes operation of wine cellar and trading of fine wine; and provision of media production services. The various lifestyle businesses are operating under the brand name of “Metropolitan”.

The revenue of the Group for the six months ended 30 June 2023 was approximately HK\$160.3 million, mainly including revenue from sales of completed projects, property investment and wine business of approximately HK\$118.6 million, HK\$21.8 million and HK\$8.9 million, respectively, (for the six months ended 30 June 2022: approximately HK\$189.0 million, mainly including revenue from sales of completed projects, property investment and wine business of approximately HK\$149.9 million, HK\$24.1 million and HK\$6.0 million, respectively), which represented a decrease of approximately HK\$28.7 million as compared with the last period. The decrease in revenue was contributed by the decrease in sales of completed projects which were under the property development segment of the Group from approximately HK\$149.9 million for the six months ended 30 June 2022 to approximately HK\$118.6 million for the six months ended 30 June 2023. The loss attributable to owners of the Company for the six months ended 30 June 2023 was approximately HK\$29.7 million (for the six months ended 30 June 2022: profit of approximately HK\$61.4 million). The turnaround from profit to loss for the six months ended 30 June 2023 was mainly due to the decrease in revenues generated from the sales of completed projects and the absence of gain on change in fair value of investment properties from recognised upon the transfer of properties from investment properties to properties held for sale during the current period (for the six months ended 30 June 2022: gain of change in fair value of investment properties of approximately HK\$50.9 million). The basic loss per share for the period was approximately HK4.64 cents as compared to earnings per share of approximately HK9.58 cents for the corresponding period of last year. The review of the individual business segments of the Group is set out below.

PROPERTY DEVELOPMENT

Revenue recognised in this business segment for the six months ended 30 June 2023 was approximately HK\$118.6 million (for the six months ended 30 June 2022: HK\$149.9 million). As at 30 June 2023, the Group had seven completed projects, namely, The Galaxy; The Star; The Rainbow; The Cloud; Corner 19; Corner 25 and Corner 50; and three major projects under development (either held by the Group or through an associate of the Group), namely, After The Rain; Kwun Tong Site Project and Big Triangle Project. A general summary and update of current property development projects of the Group during the reporting period and as at 30 June 2023 are listed below:

Hong Kong Projects:

- (a) The Rainbow: During the six months ended 30 June 2023, the sales of completed units and the temporary rental income from properties held for sale recognised was amounted to approximately HK\$7.5 million and HK\$6.3 million, respectively (for the six months ended 30 June 2022: revenue from completion and delivery of the unit and the temporary rental income from properties held for sale recognised was amounted to approximately HK\$52.9 million and HK\$7.0 million respectively).
- (b) The Cloud: The Group redeveloped a new building in light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018. The Cloud has completed in the second quarter of 2022, while the occupation permit was granted in the first quarter of 2022. The completion and revenue recognition has been taken place in the second quarter of 2022. During the six months ended 30 June 2023, revenue of approximately HK\$111.2 million was recognised from completion and delivery of 40 property units (for the six months ended 30 June 2022: HK\$97.1 million from 46 units).
- (c) After The Rain Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting at young residents pursuing high quality and design driven lifestyle. The Group has obtained town planning approval around the middle of 2019 and building plan approval in February 2020. The land premium in relation to the lease modification was paid in 2021. The superstructure work was completed in the first quarter of 2023, and occupation permit was granted in April 2023. In the meantime, pre-sale permit is granted at the end of February 2023 and the pre-sale has started in March 2023. Up to 30 June 2023, the Group has entered into preliminary sale and purchase agreements for 161 residential units of which 28 units has been fully settled. Construction process is expected to be completed in the third quarter of 2023.
- (d) Kwun Tong Site Project: The Group intends to redevelop it into a new stylish and prestigious industrial/office building with gorgeous sea views. Hoarding and demolition work of the existing building commenced in the third quarter of 2019. Major redevelop work is intended to start in the first half of 2024. Upon the completion of the property redevelopment work, the Group intends to sell the property to generate revenue.

Korea, Seoul Projects:

- (e) Corner 19 Project: The site is located in Seongsu area of Seoul, South Korea. The construction of the building was completed and government approval was granted on 2 November 2021. In order to attract institutional purchasers and increase the value of the building, the Group was in the progress to temporarily lease out all floors to create a stable and high yield to the building. The Group sold the whole building to generate revenue in third quarter of 2022.

- (f) Corner 25 Project: The site is located in Seongsu area of Seoul, South Korea, same area of Corner 50 Project and Corner 19 Project. The Group acquired the project as property investment in 2020, and changed the intention to redevelop the project into a high end prestigious buildings as land mark for the Group in the Seongsu area in the second quarter of 2022. The redevelopment work has been completed in the second quarter of 2022. The Group sold the whole building to generate revenue in third quarter of 2022.
- (g) Corner 50 Project: The site is located in Seongsu area of Seoul, South Korea and the Group intends to redevelop it into a high end prestigious building. The demolition work was completed in the second quarter of 2020 and the construction process was completed in the third quarter of 2022. The Group sold the whole building to generate revenue in third quarter of 2022.
- (h) Big Triangle project: The site is located in Seongsu area of Seoul, South Korea and the project will be redeveloped into a high end prestigious office and retail complex by an associate set up by the Group and two independent third parties during the year ended 31 December 2022. The Group acquired the project as investment in an associate in 2022. The acquisition of land and design works of the project have been initiated since the third quarter of 2022 and were completed in first quarter of 2023. The project's demolition work was completed in second quarter of 2023 and construction work is expected to complete in first quarter of 2026.

PROPERTY INVESTMENT

The Group is engaging in property investment for sale, rental or capital appreciation. Partial of the rental of business is carrying out through provision of serviced apartment; co-working space and storage under the brand of “Metropolitan”.

Revenue recognised in this business segment for the six months ended 30 June 2023 amounted to approximately HK\$21.8 million (for the six months ended 30 June 2022: approximately HK\$24.1 million), representing a decrease of approximately HK\$2.3 million over the corresponding period of last year. Below are the breakdown of revenue on the property investment business under serviced apartment, storage and workshop:

Metropolitan Apartment

Metropolitan Apartment is principally engaged in the business of operation of serviced apartments in Hong Kong which provided fully furnished suites with flexible monthly renewal terms. The target customers of Metropolitan Apartment are short-term overseas employees, local residents and college students. Revenue recognised in this business for the six months ended 30 June 2023 amounted to approximately HK\$1.7 million (for the six months ended 30 June 2022: approximately HK\$1.3 million), which represented a slightly increase of approximately HK\$0.4 million compared with the corresponding period of last year.

Metropolitan Storage and Workshop

Metropolitan Workshop is principally engaged in the business of provision of 24-hour co-working spaces ranging from private rooms/shared offices, dedicated desks, hot desks, and virtual offices to memberships in multi-location, providing flexible price plans and all equipped workspace perfect for freelancers, entrepreneurs, smaller companies and corporates. Metropolitan Storage is principally engaged in the business of provision and operation of 24-hour storage service to the public in Hong Kong. Revenue recognised in this business for the six months ended 30 June 2023 amounted to approximately HK\$19.5 million (for the six months ended 30 June 2022: approximately HK\$22.0 million), which represented a decrease of approximately HK\$2.5 million compared with the corresponding period of last year.

As at 30 June 2023, the total carrying value of the Group's portfolio of investment properties was amounted to approximately HK\$883.0 million (31 December 2022: approximately HK\$883.0 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong of HK\$834.7 million (31 December 2022: located in Hong Kong and South Korea of approximately HK\$834.7 million), and right-of-use assets ("ROU") that meet the definition of investment properties of HK\$48.3 million (31 December 2022: HK\$48.3 million).

Among all of the investment properties, the total carrying value categorized under Property Investment segment, amounted to approximately HK\$838.0 million (31 December 2022: HK\$838.0 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong of HK\$800.7 million (31 December 2022: HK\$800.7 million); and ROU that meet the definition of investment properties of HK\$37.3 million (31 December 2022: HK\$37.3 million). The remaining investment properties were categorized under Wine Business segment.

The Group will also consider if there is any purchase opportunity for investment property or if any of the development properties have appreciation potential to be converted as investment properties, which allow more stable rental income to be generated.

PROVISION OF PROPERTY MANAGEMENT SERVICES

The Group is providing the property management services for our four completed projects — The Galaxy, The Star, The Rainbow, The Cloud; two commercial buildings at Sheng Wan and a residential building located at Happy Valley. Revenue recognised in this business segment for the six months ended 30 June 2023 amounted to approximately HK\$5.9 million (for the six months ended 30 June 2022: approximately HK\$5.2 million). The Group believes that the provision of all-rounded high quality property management and security services could help to enhance our brand recognition. The increase of upcoming completed projects and provision of services to other property owners or developers are expected to expand this business segment and help the Group to generate stable income in long run.

PROVISION OF FINANCE

The Group is providing credit facilities to individuals and corporation clients for its own development commercial and industrial projects. Revenue generated from this business segment for the six months ended 30 June 2023 amounted to approximately HK\$2.0 million (for the six months ended 30 June 2022: HK\$1.5 million), representing an increase of approximately HK\$0.5 million due to increase in number of loans to the purchasers of the Group's property units. The Group expects this business segment to generate a stable income and provide support to enhance the sales of properties.

CONSTRUCTION AND FITTING OUT WORKS

As a Registered General Building Contractor, the Group provides construction services for its own projects and fitting out works for the owners of the properties which are managing by the Group. Revenue generated from this business segment for the six months ended 30 June 2023 amounted to approximately HK\$3.2 million (for the six months ended 30 June 2022: HK\$2.0 million). The Group expects this business segment will have synergy with other business segments by enhancing the quality of work and lowering the construction or renovation costs.

WINE BUSINESS

The Group has engaged in the sales of fine wine to Hong Kong local residents with delivery services through Metropolitan Fine Wine and leasing of professional fine wine storage through Metropolitan Wine Cellar. Revenue recognised in this business segment for the six months ended 30 June 2023 amounted to approximately HK\$8.9 million (for the six months ended 30 June 2022: approximately HK\$6.0 million), which represented an increase of approximately HK\$2.9 million compared with the corresponding period of last year. During the first half of 2023, the fourth wine cellar was launched.

The total carrying value of the Group's portfolio of investment properties categorized under Wine Business segment was amounted to approximately HK\$45.0 million (31 December 2022: HK\$45.0 million), which comprised a unit in an industrial building located Hong Kong of HK\$34.0 million (31 December 2022: HK\$34.0 million); and ROU that meet the definition of investment properties of HK\$11.0 million (31 December 2022: HK\$11.0 million).

PROVISION OF MEDIA PRODUCTION SERVICES

The Group operates this business segment through Metropolitan Production by consultancy services including provision of film or advertisement; organization of media events, music concerts and artist management. No revenue was generated from this business segment for the six months ended 30 June 2023 (for the six months ended 30 June 2022: approximately HK\$0.4 million).

FUND INVESTMENT AND MANAGEMENT

The total carrying value of the Group's funds investment amounted to approximately HK\$4.8 million (31 December 2022: approximately HK\$6.1 million). In order to broaden the sources of finance and expand the market share of property development business, the Group plans to set up and manage a real estate fund for raising more funding in the future.

CAPITAL STRUCTURE

There were no movements in the Company's share capital during the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The total equity of the Group as at 30 June 2023 was approximately HK\$1,688.3 million (31 December 2022: approximately HK\$1,717.3 million). As at 30 June 2023, the Group maintained bank balances and cash of approximately HK\$109.0 million (31 December 2022: approximately HK\$57.5 million). The Group's net current assets was approximately HK\$835.2 million (31 December 2022: HK\$797.4 million). The Group had current assets of approximately HK\$4,314.1 million (31 December 2022: approximately HK\$4,013.2 million). The increase of current assets was mainly due to increase in deposit received from sales of completed project — After The Rain kept at stakeholder's accounts. The Group had current liabilities of approximately HK\$3,478.9 million (31 December 2022: approximately HK\$3,215.9 million). The increase of current liabilities was mainly due to increase in pre-sale contract liabilities of After The Rain. The information of the Group's borrowings is disclosed hereafter under note 16 to the interim condensed consolidated financial statements.

The Group generally finances its operations with internally generated cashflow, convertible bonds and borrowings from banks and financial institutions. As at 30 June 2023, the Group had convertible bonds with liability portion of approximately HK\$91.0 million (31 December 2022: approximately HK\$88.2 million); and outstanding borrowings of approximately HK\$2,863.7 million (31 December 2022: approximately HK\$2,691.9 million). The borrowings as at 30 June 2023 were secured by the Group's properties, pledged bank deposits, and corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) increase from approximately 156.7% as at 31 December 2022 to approximately 169.6% as at 30 June 2023 and increase from approximately 153.4% as at 31 December 2022 to approximately 163.2% as at 30 June 2023 respectively. The increase of both ratios was primarily due to the increase of bank borrowings and the loss attributable to owners of the Company recorded during the six months ended 30 June 2023.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) was approximately 51.6% as at 31 December 2022 and 30 June 2023.

The Group's capital commitment as at 30 June 2023 amounted to approximately HK\$93.1 million (31 December 2022: approximately HK\$744.3 million). The decrease of capital commitment was mainly due to payment of the construction cost of the development projects towards the completion of projects and transfer of a piece of land, which consideration had not been not fully paid as at 31 December 2022, to an associate of the Group during the period.

The Group has no significant contingent liabilities as at 30 June 2023. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards financial management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

CONVERTIBLE BONDS

On 21 July 2020, the Company (as purchaser) and Metropolitan Lifestyle (BVI) Limited (as vendor) entered into the Acquisition Agreement to acquire the Sale Share and Sale Loan of Metropolitan Group (BVI) Limited (as defined in the circular of the Company dated 15 September 2020) at an aggregate consideration of HK\$460,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment and issue of the convertible bonds (the "VSA"). Completion of the VSA has taken place on 22 October 2020 and the Convertible Bonds which bear a coupon rate of 3% per annum, in the principal amount of HK\$418,000,000 have been issued to Metropolitan Lifestyle (BVI) Limited. For details, please refer to the announcements of the Company dated 21 July 2020, 30 September 2020 and the circular of the Company dated 14 September 2020.

There was no redemption or conversion of the convertible bonds during the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

FOREIGN EXCHANGE

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group has operations in South Korea and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in United States dollars and Korean Won.

In respect of the Group's operations in South Korea, the Group maintains an appropriate level of external borrowings in Korean Won for natural hedging of Korean Won attributed to those projects. The Korean Won currency exposure of the Group is mainly derived from the translation of current assets and liabilities of the subsidiaries in South Korea with functional currency of Korean Won and the Korean Won deposits held for future development costs to be expended to Hong Kong dollar.

As at 30 June 2023, offshore borrowings were approximately Korean Won 0.1 billion, which is approximately HK\$0.9 million (31 December 2022: approximately Korean Won 0.2 billion, which is approximately HK\$1.00 million), as working capital loan for the operations in South Korea. The offshore borrowings are expected to be repaid in this year. The interest rates of these bank borrowings was 5.1% per annum as at 30 June 2023 (31 December 2022: 5.1% per annum).

Apart from these, the Group does not have any significant foreign exchange exposure. Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency. The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

PLEDGE OF ASSETS

As at 30 June 2023, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK\$834.7 million and HK\$3,946.9 million as well as HK\$10.0 million respectively (31 December 2022: approximately HK\$834.7 million and HK\$3,841.6 million, as well as HK\$10.0 million respectively) were pledged to secure the Group's credit facilities.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the reporting period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the year ended 31 December 2022, the Group invested into a new development project, Big Triangle Project, by setting up an associate company, Bigtriangle PFV Co. Ltd., (the "Associate") with two independent third parties in South Korea. The Associate intends to redevelop it into a high end prestigious office and retail complex. There were no further investments during the six months ended 30 June 2023.

Save as disclosed elsewhere in this announcement, there was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period and the Group did not have other plans for material investments or capital assets as of 30 June 2023.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group employed 142 employees (31 December 2022: 122 employees) and appointed 7 Directors (31 December 2022: 7 Directors). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as education subsidy, medical scheme, on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

POSSIBLE RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) market risk which refers to the economic and financial conditions that has direct impact on to the property market and purchasing power. Other retails business providers including provision of serviced apartments, workshops, storage and wine cellars may also be highly affected by the market sentiment when the economic outlook of Hong Kong was not positive; (ii) business risk like supply and price level of bank borrowings may have significant impact to the cost of our development project; (iii) industry risk which mainly refers to the continuous increase of construction costs; (iv) regulatory risk such as the changes of regulations may affect the completion time of our property development projects or the market sentiment, for example, property cooling measures imposed by the Government from time to time; (v) suppliers risk such as outsource of construction works to independent third parties while they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) other business risk like the revenue cycle is strongly depends on the sales of properties which may lead to significant fluctuation of profitability in different periods; (vii) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (viii) credit risk from provision of finance which may incur bad debts during the downturn of economy; (ix) bank borrowing and interest rate risk which may limit or otherwise materially and adversely affect our business, results of operations and financial conditions; and (x) the operational expenses may also be affected by the economic situations.

The Board acknowledges its responsibility to monitor the risk management and internal control systems of the Group on an ongoing basis and reviewing their effectiveness from time to time. The Group has set up a risk control committee to coordinate, respond to and to tackle the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The Risk Control Committee intends to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable but not absolute assurance against material misstatement or loss. The risk control committees is also responsible for developing and reviewing strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group has also engaged internal auditor to review the internal operation flow to ensure the compliance with relevant rules and regulations. Whenever possible, the Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

PROSPECT

In the current global economic climate, the Hong Kong economy continues to face significant challenges. With both inflation and interest rates projected to remain high for the foreseeable future, consumer and business sentiment are under pressure. The first half of 2023 saw Mainland China's economy expands by 5.5% year-on-year, a figure reflecting the combined effects of COVID-induced disruptions and subdued external demand.

Despite such challenges, there are emerging indications of stability within the Hong Kong property market, driven by the reopening of borders between China and Hong Kong in February as well as removal of all the mandatory mask-wearing requirements in March of this year. However, the initial surge in demand due to pent-up needs has been counterbalanced by the recent uptick in interest rates. This dynamic has led to a cautious approach from buyers and resulted in moderate market volumes. Despite this, Hong Kong's strategic role as a key financial hub and gateway to China offers a robust foundation for the sustained value of local properties. The implementation of the latest Top Talent Pass Scheme is also positively contributing to the residential rental market by attracting high-caliber individuals to settle in Hong Kong.

Up to the date of this announcement, our group has successfully entered into preliminary sales and purchase agreements for 169 residential units of the "After The Rain" project out of a total of 332 units. We are on track to reach a significant project milestone by obtaining the Certificate of Compliance soon. Given the project's strategic location in Yuen Long, stylish and spacious design, we are confident that the remaining units will be sold promptly and at decent prices, even in the current somewhat sluggish market conditions.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil). No final dividend was declared for the year ended 31 December 2022 (31 December 2021: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Model Code (the "**Model Code**") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of conduct regarding Directors' securities transactions. Memorandum was sent to the Directors twice a year to draw their attention to the Model Code. Having made specific enquiries of each of the Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the reporting period and no incident of non-compliance by the Directors was noted by the Company throughout the reporting period.

DISCLOSURE UNDER RULES 13.18 AND 13.21 OF THE LISTING RULES

In accordance with the continuing obligations set out in rule 13.21 of Chapter 13 of the Listing Rules, the following are the details of the loan agreement with covenants relating to specific performance on the controlling shareholders of the Company pursuant to rule 13.18 thereof. There exists no reporting obligation by the Company under rules 13.17 and 13.19 of the Listing Rules accordingly.

- On 27 November 2020, the Company entered into a facility agreement with a bank for the general banking facilities of an revolving loan amount of HK\$30,000,000. Pursuant to the terms of the facility agreement, Mr. Chan Man Fai Joe shall, directly or indirectly, maintain not less than 51% shareholding of the Company. As at the date of the loan agreement, Mr. Chan Man Fai Joe holds approximately 68.69% of the issued share capital of the Company.
- On 25 August 2021, Sincere Gold Properties Limited (an indirect wholly owned subsidiary of the Company), as the Borrower, entered into a facility agreement with banks for the land and construction loan and part of the facilities is to refinance the existing facilities with Hang Seng Bank up to an aggregated amount of HK\$1,241,677,000 at the terms of 24 months from the date of signing of facility agreement or 6 months after the issuance of certificate of compliance for the project located at No. 21 Wang Yip Street West, Yuen Long, New Territories, whichever is earlier. Pursuant to the terms of the facility agreement, Mr. Chan Man Fai Joe shall maintain his directorship and/or, direct or indirect beneficial shareholding for not less than 60% and maintain control over the management and business of the Group. As at the date of the loan agreement, Mr. Chan Man Fai Joe holds approximately 68.69% of the issued share capital of the Company.
- On 6 September 2022, Mark Wealthy Limited (an indirect wholly owned subsidiary of the Company), as the Borrower, entered into a facility agreement with a bank for revolving loan up to an aggregated amount of HK\$40,000,000. Pursuant to the terms of the facility agreement, Mr. Chan Man Fai Joe shall, directly or indirectly, maintain not less than 60% shareholding of the Company. As at the date of the loan agreement, Mr. Chan Man Fai Joe holds approximately 68.69% of the issued share capital of the Company.
- On 9 November 2022, Autumn Creek (H.K.) Limited (an indirect wholly owned subsidiary of the Company) as the Borrower, entered into a facility agreement with a bank (the “**Bank**”) for revolving loan up to an aggregated amount of HK\$125,000,000. Pursuant to the terms of the facility agreement, Mr. Chan Man Fai Joe shall, directly or indirectly, maintain not less than 60% shareholding of the Company. As at the date of the loan agreement, Mr. Chan Man Fai Joe holds approximately 68.69% of the issued share capital of the Company.

As at 30 June 2023, the aggregate interest in the shares in the Company held by Mr. Chan Man Fai Joe, direct and indirect, is 440,710,800 shares, representing approximately 68.70% of the shares of the Company in issued.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the reporting period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules with the exception for code provision C.2.1, which requires the roles of chairman and chief executive officer be in different individuals, throughout the reporting period.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chan Man Fai Joe currently holds both positions. Throughout the business history of the Company, Mr. Chan Man Fai Joe has been the key leadership figure of the Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises the senior management of the Group.

The Company has considered the issue of balance of power of authority on the Board and believes the structure of the Company, including strong independent elements in the Board, delegation of authorities to the management, supervision by the Board and Board committees, is sufficient to address the potential issue on power concentration. All Directors, who bring different experience and expertise to the Company, are properly briefed on issues arising at Board meetings and that adequate, complete and reliable information is received by the Directors. Furthermore, decisions of the Board are made by way of majority votes. The Board believes that this structure is conducive to a more precise and more promptly response to the fast changing business environment and a more efficient management and implementation of business process. The Board also considers that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies. The Board considers Mr. Chan Man Fai Joe the best candidate for both positions and the present arrangements are beneficial and in the interests of the Company and the shareholders of the Company as a whole.

AUDIT COMMITTEE

The Company has an audit committee of the Company (the “**Audit Committee**”) which was established in compliance with Rule 3.21 of the Listing Rules. The Audit Committee has adopted the terms of reference which are in line with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Chan Wah Man Carman, Mr. Lee Chung Ming Eric and Dr. Wong Wai Kong, with Ms. Chan Wah Man Carman being the chairlady of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated interim results and the interim report of the Company for the six months ended 30 June 2023 and agreed to the accounting principles and practices adopted by the Company.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A results announcement and an interim report containing the information required by the Listing Rules will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.stargroup.net) in due course.

For and on behalf of the Board
Star Group Company Limited
(Carrying on business in Hong Kong as SGCL)
Chan Man Fai Joe
Chairman

Hong Kong, 31 August 2023

As at the date of this announcement, the Board consists of two executive Directors, namely Mr. Chan Man Fai Joe (Chairman and chief executive officer) and Ms. Cheung Wai Shuen; two non-executive Directors, namely Mr. Tsui Wing Tak and Mr. Yim Kwok Man; and three independent non-executive Directors, namely Dr. Wong Wai Kong, Mr. Lee Chung Ming Eric and Ms. Chan Wah Man Carman.