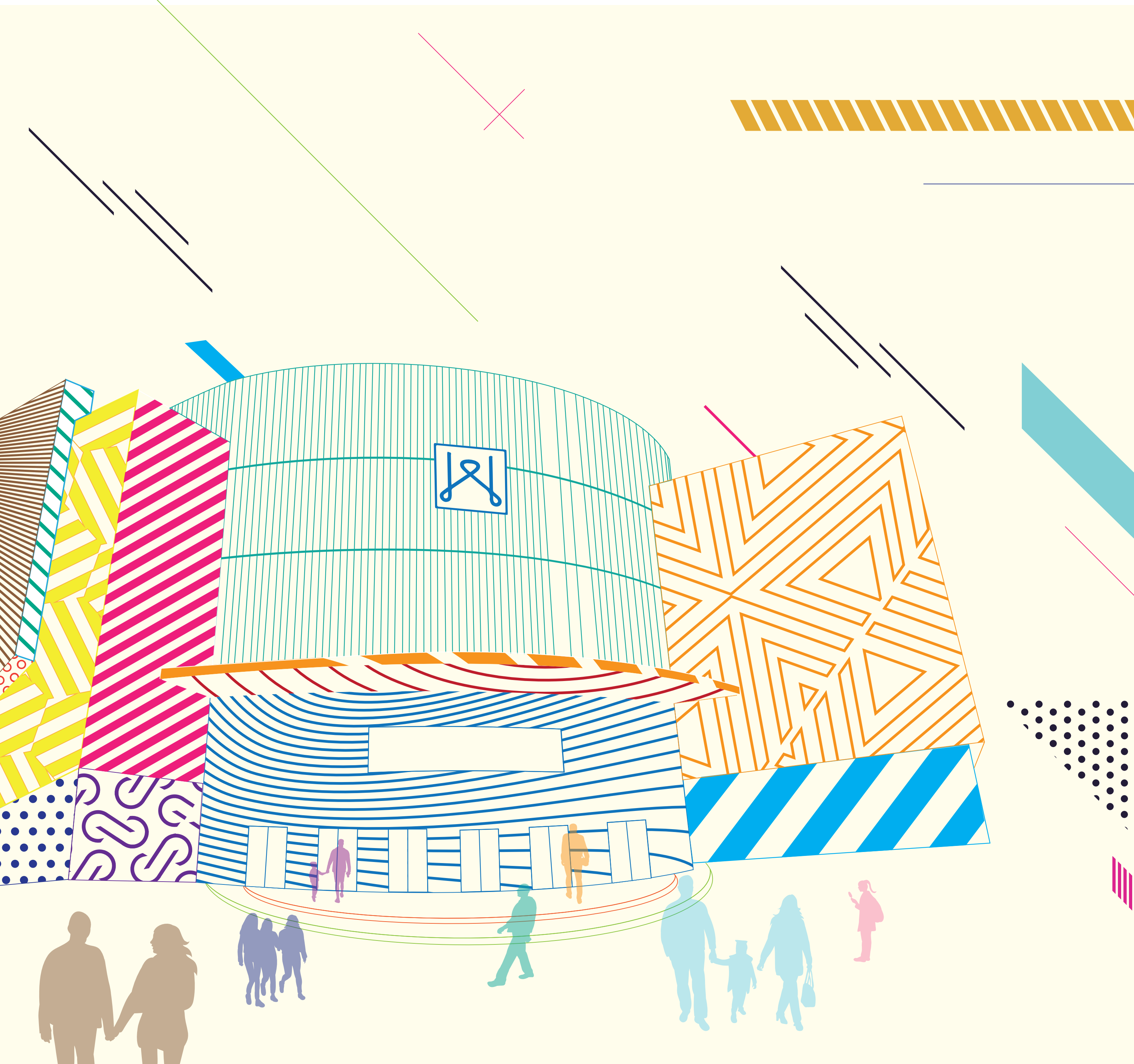
ART GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

ANNUAL REPORT 2019



CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS
Mr. Chen Jinyan *(Chairman)*
Mr. Chen Jindong *(Chief Executive Officer)*
Mr. Kwan Chi Fai*
Mr. Lin Ye*
Mr. Yang Zeqiang*
Ms. Chong Sze Pui Joanne*

* Independent Non-executive Director

COMPANY SECRETARY
Ms. Yeow Mee Mooi

AUDITOR
Elite Partners CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 1407, 14th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central, Hong Kong
Website: http://artgroup.etnet.com.hk

REGISTERED OFFICE
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Industrial and Commercial Bank of China
Bank of Communications
Bank of Zhengzhou
Hang Seng Bank

SHARE LISTING
The Stock Exchange of Hong Kong Limited
(Stock code: 565)

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Art Group Holdings Limited（錦藝集團控股有限公司）("Art Group" or the "Company") and its subsidiaries (together, the "Group"), I would like to report that the Group recorded a revenue of HK$211,818,000 (2018: HK$199,219,000) and a profit for the year of HK$76,439,000 (2018: HK$112,195,000).

BUSINESS REVIEW

With a view to magnify the Company's development potential and the shareholders' return, the Group places its resources into property operating aspects in order to explore future prospects and develop relevant markets. The Group owns a shopping mall (the "Jiachao's Shopping Mall") situated in Zhengzhou City, Henan Province, the People's Republic of China (the "PRC"). The Jiachao's Shopping Mall comprises the whole of a 4-storey shopping mall built over one level of basement commercial space and has a total registered gross floor area of approximately 125,188 square meters. All the commercial space of the Jiachao's Shopping Mall had been leased out to retail shops, restaurants and/or for entertainment and leisure use. The Jiachao's Shopping Mall is a one-stop shopping paradise offering a wide range of services and goods to consumers and shoppers with over 140 tenants including a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants.

Furthermore, one of the Company's PRC subsidiaries signed a rental agreement with a real estate developer whereby such PRC subsidiary leased from the real estate developer shop units in a shopping mall which is a 5-storey integrated commercial mall built over one level of basement commercial space with a gross floor area of approximately 80,118 square meters (the "Zone C Shopping Mall"). The rental period was extended to the end of 2020. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. The Group promoted and further rented out the Zone C Shopping Mall to independent tenants. The Group has an advantage by having an existing team of high-caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall have been minimal to the Group and the Group can generate incomes from the provision of rental, management and operating services to tenants of the Zone C Shopping Mall. The larger the area of the shopping mall, the more the number of similar types of shops opened, and thus the more customers will be attracted by offering them a large diversity and well-known brand choices. Positive benefits and synergy effects on the customer flow and the tenant grade will be brought to the Group through management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall together by the Group, eventually contributing to affirmative revenue and profit margin of property operating business. All the commercial space of the Zone C Shopping Mall had been leased out as retail shops and restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 130 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

CHAIRMAN'S STATEMENT

During the year, although the Group disposed of an indirect wholly-owned PRC subsidiary, the principal business of which was the holding of 164 shops in a giant theme shopping mall for rental purpose and agency, the Group still considers the property operating segment as its long-term focus and development, and this can be seen from its favourable outcomes achieved in these few years. Nevertheless, the Group continues to penetrate into the property operating markets, explore other new market potentials, such as preliminary investigation of biotechnology area conducted during the year, and increase profit margin by leveraging on its established strengths, experience and foresight and by applying strict cost control policy and financial planning. The directors of the Company (the "Directors") believe that better performance will be steadily reflected in the Group's future results.

STRATEGIES AND OUTLOOK

The Jiachao's Shopping Mall signifies the cornerstone of the Group to invest in the property operating business. The Group in the long-term plans to upgrade its tenant segment by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group has conducted large-scale marketing and promotion activities in the eastern and western festivals. Hence, the properties under the Group's management continue to generate a stable and constant stream of rental income and fairly consistent cash flow to the Group, which ultimately benefits the Company and its shareholders as a whole. An appreciation of property value in the long-term is also expected. Moreover, any possible investment opportunities of the property operating business will always be explored because of the increasing population and consuming power in the PRC under the effects of the Belt and Road Initiative; as a result, a strong market potential is foreseeable.

In response to the ongoing challenges, the Group has been focusing on maintaining sustainable financial results from its property operating business so as to obtain more profitable outcome. The Board gives its input in determining the Group's strategy development and planning process, as well as the generation and preservation of the Group's long-term value. Consequently, the Board closely monitors and regularly reviews the results of the implementation of the strategies, with the goals of reviving the Group's performance, enhancing its competitiveness and improving its share value.

The Group continues with its prudent cost management policy to attain greater efficiency in operations and a reasonable financial position in order to pursue business development and new opportunities for strengthening its business momentum. The Group holds a moderate financial position and its property operating business continues to contribute steady and constant cash flows. The Group maintains its long-standing commitment to a prudent and cautious financial management policy and is confident of increasing share value in long-term.

Looking forward, a steady business growth of the Group is expected in the future. We will adopt a cautious approach in developing the existing projects and exploring new opportunities including cooperation with business partners. We will continue to seek and invest resources in appropriate property operating projects with the objectives of expanding our revenue sources, improving our profitability as well as diversifying our types of business so as to further develop the business of the Group and increase the shareholders' return.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the Board, I would like to present my heartfelt thanks to the tenants, customers, bankers, business partners and shareholders of the Company for their incessant support and trust and also to each staff member of the Group for their diligent work. The achievement of the Group would not be possible without the contribution of each of the staff member and their dedication.

Chen Jinyan
Chairman

Hong Kong, 27 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in property operating and biotechnology, which is a newly-introduced segment under further development.

The Group was engaged in the property operating segment during the current year through holding 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) ("Jiachao") by the Company's indirect wholly-owned subsidiary registered in the PRC. The major asset of Jiachao is the Jiachao's Shopping Mall. The Group owns the Jiachao's Shopping Mall and generates revenue from the monthly income of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 15 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with over 140 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. All shop units in the Jiachao's Shopping Mall were rented out as at 30 June 2019.

In addition, Jiachao leased shop units in a shopping mall (the "Zone C Shopping Mall") from a real estate developer to the end of 2020. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. Jiachao promoted and further rented out the Zone C Shopping Mall to independent tenants. Jiachao has an advantage of having an existing team of caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall is minimal to Jiachao while it is earning considerable amount of rental income from renting out the Zone C Shopping Mall to tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall by Jiachao will bring positive benefits and synergy effects on the customer flow and the tenant grade to the Group, which eventually contributes to revenue and profit margin of the property operating business of the Group. As at 30 June 2019, all the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 130 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) ("Jiacong"), to an independent third party (the "Jiacong Purchaser"). The principal activity of Jiacong was the holding of 164 shops in a giant theme shopping mall (the "Jiacong's Shops") situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Jiacong to realise the Group's investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK$241,180,000). The consideration was determined after arm's length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong's Shops owned by Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019. For details, please refer to the Company's announcements dated 27 June 2019 and 18 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

On 31 May 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its former subsidiaries, Worthmore Ventures Limited ("Worthmore"), Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.) (collectively referred to as the "Disposal Group") to an independent third party (the "Worthmore Purchaser"). The intended principal activity of the Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the "Longwu Shopping Mall"), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the Disposal Group since the lease was signed in July 2017. However, during the year ended 30 June 2018, the real estate developer of the Longwu Shopping Mall decided to transfer its title and interests in the Longwu Shopping Mall to the Worthmore Purchaser. As a result of the negotiations among the real estate developer, the Worthmore Purchaser and the Group, it is agreed that the Worthmore Purchaser acquired the entire issued share capital of Worthmore at a consideration of US$1.00 (equivalent to approximately HK$7.80). The consideration was determined after arm's length negotiations with reference to (i) the net liabilities value of the Disposal Group of approximately HK$1,697,000 as at 31 May 2018; and (ii) the Worthmore Purchaser agreed to settle the outstanding liabilities owed by the Disposal Group to the Group in the aggregate amount of approximately HK$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

Revenue

For the financial year ended 30 June 2019, the Group recorded a revenue of approximately HK$211,818,000 (2018: HK$199,219,000), approximately 6.3% more than that in 2018. Since the Group holds the Jiachao's Shopping Mall and the Jiacong's Shops as investment properties during the current year, revenue of the Group included the monthly incomes of rental, management and operating services received and receivable from the tenants. Revenue of the Group also included the incomes generated from renting out the Zone C Shopping Mall to tenants. Increase in revenue during the current year was due to the slight increase in rentals and property management fee income of the Jiachao's Shopping Mall, the Jiacong's Shops and the Zone C Shopping Mall. There was no revenue generated in biotechnology segment for the years ended 30 June 2018 and 2019.

Gross Profit

The gross profit margin was approximately 69.9% for the year ended 30 June 2019 (2018: 69.3%). High gross profit margin was due to its simple costs of sales based on the business nature, such as water, electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. The gross profit margin was maintained at the similar level in both years.

Profit for the Year

The Group's profit generated for the year ended 30 June 2019 was approximately HK$76,439,000 (2018: HK$112,195,000). The profit margin was 36.1% for the current year (2018: 56.3%). Both reduced for the year ended 30 June 2019 because the fair value of investment properties, the Jiachao's Shopping Mall, dropped as a result of a less prosperous real estate market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other income for the year ended 30 June 2019 was approximately HK$16,066,000 (2018: HK$13,481,000), which was mainly other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Increase in other income was due to more consumption of car park by customers of the Jiachao's Shopping Mall and the decrease of relevant tax rate applied on income of other services.

Expenses

Administrative expenses amounted to approximately HK$26,719,000 (2018: HK$26,971,000), representing approximately 12.6% (2018: 13.5%) of revenue for the year ended 30 June 2019. Administrative expenses decreased by approximately 0.9% which were maintained at the similar level in both years.

Other expenses amounted to approximately HK$3,000 (2018: HK$792,000), representing approximately 0.001% (2018: 0.4%) of revenue for the year ended 30 June 2019. The material decrease was due to an exchange difference arisen as a result of the devaluation of RMB during the year ended 30 June 2018.

Finance costs amounted to approximately HK$29,416,000 (2018: HK$32,693,000), representing approximately 13.9% (2018: 16.4%) of revenue for the year ended 30 June 2019. The decrease was due to regular repayments of the principal of bank loans during the current year; hence, the interest expenses charged throughout the year continued to reduce.

The carrying value of the Group's investment properties as at 30 June 2019 of approximately HK$2,806,818,000 (2018: HK$3,208,333,000) was stated at fair value based on an independent valuation as at that date, which produced a revaluation loss of HK$19,541,000 (2018: a revaluation gain of HK$107,143,000). This revaluation loss mainly reflected a less flourishing rental growth of the investment properties. The attributable net revaluation loss of HK$10,992,000 (2018: net revaluation gain of HK$60,268,000), after deducting related deferred tax liabilities and non-controlling interests, was debited (2018: credited) to the consolidated income statement. Decrease in the carrying value was also due to the disposal of the Jiacong's Shops during the current year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the shareholders' return. By doing this, the Group is engaged in property operating business and owns the Jiachao's Shopping Mall for rental purpose, which is situated in Zhengzhou City, Henan Province, the PRC.

The Group's long-term plans are to upgrade its tenants of the Jiachao's Shopping Mall by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group conducts large scale marketing and promotion activities so that a stable and constant stream of rental income and fairly consistent cash flow can be continuously generated to the Group. Apart from investing into the Jiachao's Shopping Mall, the Group provides rental, management and operating services by leasing the Zone C Shopping Mall from its real estate developer in order to expand the source of income.

During the years ended 30 June 2018 and 2019, although the Group disposed of the Disposal Group due to the change of plan of the real estate developer of the Longwu Shopping Mall and Jiacong due to a less optimistic outlook about the future of the wholesale market of the textile industry in the PRC by the management of the Group, the disposals did not have a material impact on the Group's development of its property operating business, i.e. the provision of rental, management and operating services to a property. The Directors are of the view that the disposals will not have a material adverse impact on the Group's financial position because the Disposal Group had only done some preliminary promotional preparation work during the year ended 30 June 2018 and Jiacong did not comprise a very significant part of the Group's results during the year ended 30 June 2019.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of property operating markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of subsidiaries and build up biotechnology segment step by step with present and new resources. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

Looking forward, the Group continues to place additional resources to realize growth momentum from the development of property operating and biotechnology markets. The Jiachao's Shopping Mall is situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative that advocated by the PRC's government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had net current liabilities and total assets less current liabilities of approximately HK$124,948,000 (2018: HK$390,908,000) and HK$2,721,116,000 (2018: HK$2,887,731,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank loans. As at 30 June 2019, the Group had cash and bank deposits of approximately HK$32,377,000 (2018: HK$18,121,000). The current ratio of the Group was approximately 71.3% (2018: 8.9%).

Total equity of the Group as at 30 June 2019 was approximately HK$1,856,626,000 (2018: HK$1,864,515,000). As at 30 June 2019, the total borrowings of the Group, repayable from within 12 months to over six years from the end of the reporting period, denominated in RMB435,000,000 were equivalent to approximately HK$494,318,000 (2018: HK$603,571,000) and five bonds measured at amortised cost was HK$35,287,000 (2018: HK$25,237,000). As at 30 June 2019, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 28.5% (2018: 33.7%).

The Group has maintained and will continue to maintain a reasonable amount of working capital on hand in order to maintain its financial position, and sufficient resources are expected to be generated from its business operations and financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2019, the total borrowing facilities of the Group amounted to approximately HK$494,318,000 (2018: HK$603,571,000), of which, all facilities (2018: all facilities) was utilised. In addition, five bonds (2018: three bonds) amounted to approximately HK$35,287,000 in aggregate (2018: HK$25,237,000), measured at amortised cost, were arranged with four independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

CAPITAL STRUCTURE

As at 30 June 2019, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP'S ASSETS

As at 30 June 2019, certain investment properties of the Group with aggregate carrying values of approximately HK$1,219,171,000 (2018: HK$1,286,017,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2019, the Group invested approximately HK$1,241,000 (2018: HK$1,598,000) in property, plant and equipment; all was used for purchase of furniture, fixtures, office equipment, motor vehicles and leasehold improvements.

As at 30 June 2019, the Group had no capital commitments in property, plant and equipment (2018: Nil).

STAFF POLICY

The Group had 159 employees altogether in the PRC and Hong Kong as at 30 June 2019. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Four independent non-executive Directors (each an "Independent Non-executive Director") are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Chen Jinyan（陳錦艷）, aged 50, is the Chairman of the Company and is responsible for the Group's operation. Mr. Chen has over 5 years of experience in property operations and over 28 years of experience in the textile industry. Mr. Chen obtained a Diploma in the Design of Textile Products from the Textile Engineering Faculty of Jiangxi Textile Industry Academy（江西紡織工業學院）. He is the elder brother of Mr. Chen Jindong.

Mr. Chen Jindong（陳錦東）, aged 48, is the Chief Executive Officer of the Company responsible for administration and finance of the Group. Mr. Chen has over 5 years of experience in property operations and over 25 years of experience in the textile industry. Mr. Chen obtained a Diploma in Industrial and Financial Accounting from Fuzhou Industrial Academy（福州工業學院）. He is the younger brother of Mr. Chen Jinyan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwan Chi Fai（關志輝）, aged 55, is appointed as an Independent Non-executive Director since April 2016. Mr. Kwan is a Certified Public Accountant (Practising) in Hong Kong. Mr. Kwan is also a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor. Mr. Kwan has over 23 years of experience in auditing and accounting services.

Mr. Lin Ye（林野）, aged 65, is appointed as an Independent Non-executive Director since October 2013. Mr. Lin is the Vice General Manager of Zhengzhou Yi Mian Company Limited ("Yi Mian")（鄭州一棉有限責任公司）and is responsible for administration works since 2004. Mr. Lin was the team leader, the assistant supervisor and the vice-supervisor of product development centre of Yi Mian from 1976 to 1998, respectively. Mr. Lin was the supervisor of the branch factory of Yi Mian from 1998 to 2004.

Mr. Yang Zeqiang（楊澤强), aged 49, is appointed as an Independent Non-executive Director since September 2012. Mr. Yang obtained a Diploma in Accounting and a Bachelor's Degree in Accounting from Zhongyuan University of Technology（中原工學院）(formerly known as Zhengzhou Textile Institute（鄭州紡織工學院）) in 1992 and 2005, respectively. Mr. Yang is currently the financial controller of Xuchang Yishui Xincheng Real Estate Development Company Limited（許昌淠水新城房地產開發有限公司）.

Ms. Chong Sze Pui Joanne（張詩培）, aged 46, is appointed as an Independent Non-executive Director since December 2016. Ms. Chong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Chartered Accountant of the Institute of Chartered Accountants Ontario, Canada and a Certified Public Accountant of the America Institute of Certified Public Accountants. Ms. Chong obtained a Bachelor's Degree of Commerce from the University of Melbourne in Australia in 1994. Ms. Chong has over 19 years of experience in auditing, taxation and business development.

DIRECTORS' REPORT

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The activities of its principal subsidiaries at 30 June 2019 are set out in note 34 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing by the Group and an indication of likely future development in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 11 of this annual report. This discussion forms part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 46.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2019 (2018: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 121 of the annual report.

INVESTMENT PROPERTIES

Details of movements during the year ended 30 June 2019 in investment properties of the Group are set out in note 16 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 30 June 2019 are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of movements in reserves and changes in equity of the Company during the year ended 30 June 2019 are set out in note 33 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors (each an "Executive Director"):
Mr. Chen Jinyan
Mr. Chen Jindong

Independent Non-executive Directors:
Mr. Kwan Chi Fai
Mr. Lin Ye
Mr. Yang Zeqiang
Ms. Chong Sze Pui Joanne

In accordance with Articles 86 and 87 of the Articles of Association of the Company, Messrs. Chen Jindong and Kwan Chi Fai will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Jindong was re-appointed by the board of directors (the "Board") on 1 September 2019 to continue to act as an Executive Director of the Company for a term of one year after the expiration of his service agreement on 31 August 2019. The service agreement for Mr. Chen Jinyan expired on 31 August 2018 and he was re-appointed by the Board on 1 September 2018 to continue to act as an Executive Director of the Company for a term of two years. All of the above service agreements can be terminated by either party by giving three months' prior written notice.

Each of the Independent Non-executive Directors entered into service agreements with the Company for a term of one year and either the Company or the Independent Non-executive Directors may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Other than as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2019, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Jindong	Held by his spouse *(Note 1)*	369,100,000	13.73%
Mr. Chen Jinyan	Beneficial owner and held by controlled corporation *(Note 2)*	597,280,000	22.21%

Notes:

(1) Among the 369,100,000 shares, 324,340,000 shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the "BVI"), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Jindong, Ms. Lin Lin and 44,760,000 shares are held by Ms. Lin Lin. Mr. Chen Jindong is deemed to be interested in 369,100,000 shares of the Company.

(2) Among the 597,280,000 shares, 593,480,000 shares are held by Fully Chain Limited ("Fully Chain"), a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan and 3,800,000 shares are held by Mr. Chen Jinyan. Mr. Chen Jindong is the younger brother of Mr. Chen Jinyan.

(b) Share options

Name of director	Capacity	Number of share options held	Number of underlying shares
Mr. Lin Ye	Beneficial owner	2,080,000	2,080,000
Mr. Yang Zeqiang	Beneficial owner	2,080,000	2,080,000

Other than as disclosed above, none of the Directors, chief executives or their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 June 2019.

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options" below, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 30 June 2019.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 30 June 2019.

DIRECTORS' REMUNERATION

The remuneration committee makes recommendations to the Board on the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ms. Lin Lin	Beneficial owner and interest in a controlled corporation	369,100,000	13.73%
Mr. Chen Jinqing	Beneficial owner and interest in a controlled corporation *(Note)*	166,000,000	6.17%
Dresdner VPV N. V.	Investment manager	139,755,200	5.20%

Note: The shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Jindong.

Other than disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2019.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

Grantee	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30.6.2019
Directors								
Mr. Lin Ye	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	–	–	–	**2,080,000**
Mr. Yang Zeqiang	22.5.2014	22.5.2014 to 21.5.2024	0.166	2,080,000	–	–	–	**2,080,000**
				4,160,000	–	–	–	**4,160,000**
Employees	15.1.2018	15.1.2018 to 14.1.2028	0.430	268,500,000	–	–	**(26,850,000)**	**241,650,000**
Granted Total				272,660,000	–	–	**(26,850,000)**	**245,810,000**

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the Independent Non-executive Directors are independent.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 30 to the consolidated financial statements constitute connected transactions of the Company under Chapter 14A of the Listing Rules exempt from shareholders' approval and all disclosure requirements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 June 2019, the aggregate sales attributable to the Group's five largest customers accounted for 27% (2018: 30%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 14% (2018: 16%) of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 67% (2018: 38%) of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 52% (2018: 26%) of the Group's total purchases.

None of the Directors, their associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

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

During the year ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 30 June 2019.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 20 to 31 of this annual report.

DIRECTORS' REPORT

SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL POLICIES

Information on the work done and efforts made by the Company on environmental protection and other aspects for the sustainable growth and development of the business of the Group are set out in the Environmental, Social and Governance Report on pages 32 to 40 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

AUDITOR

Following the resignation of Dominic K.F. Chan & Co. as the auditor of the Company on 25 May 2017, Centurion ZD CPA Limited ("Centurion ZD") was appointed as the auditor of the Company on the same day to fill in the vacancy. On 20 June 2019, Centurion ZD resigned as the auditor of the Company and Elite Partners CPA Limited ("Elite Partners") was appointed as the auditor of the Company on the same day to fill in the vacancy.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements of the Company for the year ended 30 June 2019 were audited by Elite Partners, whose term of office will retire at the close of the forthcoming annual general meeting ("AGM"). A resolution for the re-appointment of Elite Partners as the auditor of the Company will be proposed at the AGM.

On behalf of the Board

Chen Jinyan
CHAIRMAN

Hong Kong
27 September 2019

CORPORATE GOVERNANCE REPORT

The Group is committed to achieving the best corporate governance practices as a listed company. The corporate governance policy aims to improve the accountability and transparency of the Group by regulating the Group's corporate governance practices. During the financial year ended 30 June 2019, the Group applied the principles and met the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry, all Directors have complied with the code of conduct and the required standard set out in the Model Code throughout the financial year ended 30 June 2019.

BOARD OF DIRECTORS (THE "BOARD")

During the year under review, the composition of the Board, with at least one-third of which are Independent Non-executive Directors, was as follows:

Mr. Chen Jinyan	*(Chairman, Executive Director)*
Mr. Chen Jindong	*(Chief Executive Officer, Executive Director)*
Mr. Kwan Chi Fai	*(Independent Non-executive Director)*
Mr. Lin Ye	*(Independent Non-executive Director)*
Mr. Yang Zeqiang	*(Independent Non-executive Director)*
Ms. Chong Sze Pui Joanne	*(Independent Non-executive Director)*

Each executive Director (the "Executive Director") has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

Each Independent Non-executive Director has confirmed his/her independence with the Company and the Company considers that each of the Independent Non-executive Directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other except that Mr. Chen Jinyan is the eldest brother of Mr. Chen Jindong.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (THE "BOARD") *(Continued)*

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company and its shareholders taken as a whole. During the financial year ended 30 June 2019, eleven Board meetings were held and the attendance of all Directors at the Board meetings was as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	11/11
Mr. Chen Jindong	11/11
Mr. Kwan Chi Fai	10/11
Mr. Lin Ye	10/11
Mr. Yang Zeqiang	10/11
Ms. Chong Sze Pui Joanne	10/11

The Board convened the Board meetings in performance of its duties, to consider, approve and review, inter alia,

- the interim review fee for the period ended 31 December 2018 and the annual audit fee for the financial year ended 30 June 2019;
- declaration, recommendation and payment of interim and final dividends;
- the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and their training programmes and budget;
- the change of auditor;
- the change of address of Hong Kong Branch Share Registrar and Transfer Office of the Company;
- the issuance of bonds to independent third party;
- the approval of a disclosable transaction in respect of disposal of the entire equity interests of Zhengzhou Jiacong Property Services Co., Ltd. on 27 June 2019;
- publication of interim and annual results announcements; and
- the internal control review report of the Company.

Directors' training is an ongoing process and its purpose is to improve Directors' knowledge of, and performance in, business operations and compliance matters. During the financial year ended 30 June 2019, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Moreover, all Directors are required to provide the Company with their respective training records.

CORPORATE GOVERNANCE REPORT

OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as property operating market expansion and tenant growth with delighting shoppers, while the senior management is responsible for the execution of the Board's decisions in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is also responsible for reviewing the effectiveness of the Group's internal control system. An external professional party conducted review of the effectiveness of the Group's system of internal control. The audit committee of the Board reviewed the findings and opinion of the external professional party on the effectiveness of the Group's system of internal control. In respect of the financial year ended 30 June 2019, the Board considered the internal control system effective and adequate. No significant areas of concern which might affect shareholders were identified.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

In addition, the Board reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget. The audit committee also reviewed and was satisfied with the adequacy of the staffing of the financial reporting functions.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for that period. The Directors ensure that the financial statements for the financial year ended 30 June 2019 were prepared in accordance with statutory requirements and applicable accounting standards. The financial statements were prepared on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. It is the responsibility of the auditor to form an independent opinion on these statements and to report their opinion to the Group.

CORPORATE GOVERNANCE REPORT

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Jindong who is the younger brother of Mr. Chen Jinyan. The duties of the Chairman include:

(a) to ensure all Directors are properly briefed on issues arising at Board meetings;

(b) to ensure all Directors receive adequate information, which must be complete and reliable, in a timely manner;

(c) to provide leadership to the Board;

(d) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website announcements, circulars, interim and annual reports and holding of annual general meeting etc.;

(e) to ensure that good corporate governance practices and procedures are established; and

(f) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include:

(a) to be responsible for the day-to-day management of the Group's business;

(b) to develop strategies and policies for the Board's approval;

(c) to be responsible for the performance of the Group and the implementation of the Board's strategies and policies;

(d) to maintain effective systems of internal control and risk management;

(e) to ensure that proper financial records and accounts are kept; and

(f) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.

COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties that stated in specific written terms of reference had been discussed and approved in the Board meeting.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

With specific written terms of reference, the audit committee of the Company (the "AC") comprises four members, all being Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai, who is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of Association of Chartered Certified Accountants and a Certified Tax Advisor, is the chairman of the AC. The AC's terms of reference are posted on the websites of the Company and the Stock Exchange.

The principal role and function of the AC are:

(a) in relation to the Company's external auditor, to recommend the Board on its appointment, re-appointment and removal, remuneration and terms of engagement of the external auditor, its independence, effectiveness of audit process, as well as nature and scope of audit and reporting obligations before the audit commences;

(b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions and qualifications, compliance with accounting standards and the Listing Rules;

(c) to review and make recommendations of the Group's financial control, internal control and risk management systems;

(d) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(e) where an internal audit function exists, to review the internal audit programme, ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(f) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system;

(g) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(h) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

(i) to review the Group's financial and accounting policies and practices.

AUDIT COMMITTEE *(Continued)*

In addition, the AC has been delegated by the Board to be responsible for performing the corporate governance duties that are listed as follows:

(a) to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;

(b) to perform the Company's corporate governance functions;

(c) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(d) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(e) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors of the Company; and

(f) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

During the financial year ended 30 June 2019, seven AC meetings were held and the attendance of its members was as follows:

Name of members	**Attendance**
Mr. Kwan Chi Fai	7/7
Mr. Lin Ye	7/7
Mr. Yang Zeqiang	7/7
Ms. Chong Sze Pui Joanne	7/7

The following is a summary of the work performed by the AC during the financial year ended 30 June 2019 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;

- assessed the risk environment and risk management system, reviewed internal control procedure manual of the Group and auditor's findings and opinion on the Group's system of internal control and considered that the internal control system and the risk management system are effective and adequate and there is no immediate need to set up an internal audit function within the Group. The AC will review and consider to establish such department when it thinks necessary;

- reviewed the adequacy of the resources, qualifications and experience of staff for the Group's accounting and financial reporting function, and their training programmes and budget and was satisfied with the adequacy;

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

- reviewed external auditor's significant audit matters;
- considered and approved the annual audit fee and interim review fee; and
- reviewed and monitored the external auditor's independence and engagement to perform non-audit services.

The chairman of the AC reports the findings and recommendations of the AC to the Board after each meeting. The AC had discussed with the auditor regarding the annual audit for the financial year ended 30 June 2018 and the interim review for the period ended 31 December 2018 before the Board meeting.

The Group's audited consolidated financial statements for the financial year ended 30 June 2019 have been reviewed by the AC, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The AC considered that the existing proposed terms in relation to the appointment of the Group's external auditors are fair and reasonable.

REMUNERATION COMMITTEE

With specific written terms of reference, all members of the remuneration committee of the Company (the "RC") are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai is the chairman of the RC. The RC's terms of reference are posted on the websites of the Company and the Stock Exchange.

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, proposing their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his/her associate(s) is involved in deciding his/her own remuneration. The RC performs an advisory role to the Board, with the Board retaining the final authority to approve key executives' remuneration.

The chairman of the RC reports the findings and recommendations of the RC to the Board after each meeting. During the financial year ended 30 June 2019, there was one RC meeting and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	1/1
Mr. Lin Ye	1/1
Mr. Yang Zeqiang	1/1
Ms. Chong Sze Pui Joanne	1/1

The work performed by the RC during the financial year ended 30 June 2019 included the review of the remuneration policy for this financial year and the remuneration of the Executive Directors and the Independent Non-executive Directors.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

With specific written terms of reference, all members of the nomination committee of the Company (the "NC") are Independent Non-executive Directors; namely, Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne. Mr. Kwan Chi Fai is the chairman of the NC. The NC's terms of reference are posted on the websites of the Company and the Stock Exchange.

The role and function of the NC include:

(a) to review the structure, size and composition (including the skills, knowledge, diversity and experience) of the Board at least annually and make recommendations to the Board regarding any proposed changes so as to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships with due regard for the benefits of diversity on the Board with reference to the Board diversity policy;

(c) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer of the Company, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;

(d) to assess the independence of Independent Non-executive Directors in accordance with the provisions of the Listing Rules and other relevant laws, rules and regulations;

(e) to review the Diversity Policy, to develop and review measurable objectives for the implementing the Diversity Policy and to monitor the progress on achieving these objectives; and

(f) where the Board proposes a resolution to elect an individual as an Independent Non-executive Directors at the general meeting, the NC should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent.

The chairman of the NC reports the findings and recommendations of the NC to the Board after each meeting. During the financial year ended 30 June 2019, there was one NC meeting and the attendance of its members was as follows:

Name of members	Attendance
Mr. Kwan Chi Fai	1/1
Mr. Lin Ye	1/1
Mr. Yang Zeqiang	1/1
Ms. Chong Sze Pui Joanne	1/1

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(Continued)*

The NC recommended that one Executive Director, Mr. Chen Jinyan and one Independent Non-executive Director, Mr. Lin Ye, retiring by rotation at the annual general meeting (the "AGM") held in November 2018, be re-elected. The NC made this recommendation for re-appointment based on their contributions to the Board and their firm commitment to their roles. The Board accepted the NC's recommendation and accordingly, the Executive Director and the Independent Non-executive Director above offered themselves for re-election at the AGM held in November 2018. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

Nomination Policy

The NC recommends candidates for nomination to the Board, which approves the final choice of candidates. The NC is responsible to maintain the nomination policy of the Company (the "Nomination Policy") and review the same regularly. The objective of the Nomination Policy is to assist the Company in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the Company.

The NC shall consider any and all candidates recommended as nominees for Directors to the committee by any Directors or shareholders of the Company in accordance with its Articles of Association. The NC may also undertake its own search process for candidates and may retain the services of professional search firms or other third parties to assist in identifying and evaluating potential nominees. The NC shall endeavour to find individuals of high integrity who possess the qualifications, qualities, skills, experience and independence (in case of Independent Non-executive Directors) to effectively represent the best interests of all shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives.

The NC may use any process it deems appropriate for the purpose of evaluating candidates including personal interviews, background checks, written submission by the candidates and third party references. As far as practicable, nominees for each election or appointment of Directors shall be evaluated using a substantially similar process. The NC shall review the Nomination Policy from time to time.

AUDITOR'S SERVICES

(a) Audit service

Centurion ZD CPA Limited ("Centurion ZD") resigned as the auditor of the Company with effect from 20 June 2019 and Elite Partners CPA Limited ("Elite Partners") was appointed by the Board as auditor of the Company with effect from 20 June 2019 to fill the casual vacancy so arisen. Please refer to the Company's announcement dated 20 June 2019 for details.

The fee for annual audit quoted by Elite Partners had been reviewed by the Board and the AC. For the financial year ended 30 June 2019, the auditor's remuneration was HK$1,100,000.

(b) Non-audit service

The fee charged by Centurion ZD of interim review for the period ended 31 December 2018 was HK$350,000. Centurion ZD reviewed the interim financial statements and made a review conclusion.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board and the NC adopted and approved the Diversity Policy on 26 August 2013 for the purpose of supporting the attainment of strategic objectives and sustainable and balanced development of the Company. A summary of the Diversity Policy, together with the measureable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Measurable Objectives

In designing the Board's composition, all Board appointments will be based on merits, and candidates of the Board membership will be considered against objective criteria, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, with due regard for the benefits of diversity on the Board.

Monitoring and Reporting

The NC will report annually the composition of the Board in the Corporate Governance Report. The NC will also review the objectives of the Diversity Policy and closely monitor it in order to ensure the implementation of this policy. Furthermore, the NC will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises six Directors, four of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

DIVIDEND POLICY

The Company has in place a dividend policy. Any declaration and payment of dividend shall be determined at the sole discretion of the Board with the long term objective of maximising shareholder value of the Company.

According to the dividend policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account; inter alia, the following factors:

(a) operating and financial results;

(b) cash flow situation;

(c) business conditions and strategies;

(d) future operations and earnings;

(e) taxation considerations;

(f) capital requirements and expenditure plans;

(g) interests of shareholders;

(h) any restrictions on payment of dividends; and

(i) any other factors that the Board may consider relevant.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY *(Continued)*

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividends under the dividend policy are subject to the Board's determination that the same would be in best interests of the Group and the shareholders of the Company as a whole. The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

COMMUNICATION WITH SHAREHOLDERS

The Board uses the AGM to communicate with shareholders and encourages their participation. At the AGM held in November 2018, the Chairman proposed a separate resolution in respect of each substantially separate issue. The Chairman also arranged a member of the AC and the auditor to answer questions at the meeting. Moreover, the Company provides extensive information to its shareholders in its annual reports, interim reports, announcements and circulars that are published on the websites of the Company and the Stock Exchange. Shareholders may at any time send their enquiries and concerns to the Board addressing to the Company Secretary of the Company by fax or by post to the Company's head office and principal place of business in Hong Kong as follows:

Art Group Holdings Limited
Unit 1407, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong
Fax: +852 3106 6987

COMPANY SECRETARY

The Company Secretary is Ms. Yeow Mee Mooi. She had taken not less than 15 hours of relevant professional training during the financial year ended 30 June 2019 as required under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the articles of association of the Company, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company deposited at the Company's head office and principal place of business in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

VOTING BY POLL

The articles of association of the Company set out the procedures, requirements and circumstances where voting by poll is required. Pursuant to Rule 13.39 of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

The poll results will be published on the websites of the Stock Exchange and of the Company as soon as possible after conclusion of the general meeting, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following the general meeting.

CHANGES TO CONSTITUTIONAL DOCUMENTS

The Company has not made any amendments to its constitutional documents during the year ended 30 June 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to the long term sustainability of the environment and communities in which it engages. Acting in an environmentally responsible manner, the Group endeavours to identify and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. This report is prepared by the Group in compliance with the Environmental, Social and Governance ("ESG") Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. This report complies with the "comply or explain" provisions set out in the ESG Reporting Guide for the financial year ended 30 June 2019 by making general disclosures on environmental and social information.

ENVIRONMENTAL

Emissions

Air Emissions by the Group

In accordance with the "Environmental Protection Law of the PRC"（中國環境保護法）and the "Regulations on the Administration of Environmental Protection of Construction Projects"（建設項目環境保護管理條例）, the facilities for pollution prevention and control in the construction project must be designed, constructed and put into use at the same time as the main project. Pollution prevention and control facilities, such as "three simultaneous" concept, are considered as the effective measures to strictly control the new pollution sources and pollutant emissions and to curb the trend of environmental deterioration. During the project construction and operation period, the Group's pollution prevention and control measures strictly complied with the relevant regulations and standards of the PRC government:

During the reporting period, the Group's emissions were mainly underground garage and automobile exhaust and amounted to three tons of carbon monoxide in total. From the understanding of the Group, after the real estate developer sets up an independent air supply and exhaust system in underground parking lot, the impact of automobile exhaust on the surrounding environment becomes minimal. 11 exhaust pipes installed in the underground garage discharged emissions for approximately 2,900 hours per annum. Though the Group is only responsible to operate the underground garage, it also observes the status of the exhaust emissions from time to time.

Air emission by Group's tenants

In order to prevent the pollution caused by catering industry fumes on the atmospheric environment and living environment, the catering tenants of the Group, in accordance with the "Air Pollution Control Law of the PRC"（中國大氣污染防治法）and "Catering Fume Emission Standards"（飲食業油煙排放標準）specially formulated by the Ministry of Environmental Protection of the PRC, installed fume purification facilities and implemented pollution prevention and control measures to achieve pollutant discharge standards. Fume purification facilities are installed and used by the catering tenants after inspection and approval by the units qualified by the PRC government. From the understanding of the Group, the specifications of the fume purification facilities are in compliance with the relevant standard, and the Environmental Protection Administrative Department is responsible for monitoring the implementation. The Group also monitors the status of fumes emissions in the catering shop units from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL *(Continued)*

Emissions *(Continued)*

Waste water discharge

Through the use of rain and sewage diversion system and the compliance of sewage treatment by the septic tank, the Group deals with waste water drainage by the municipal sewage pipe network in accordance with the sewage standards issued by the relevant PRC government departments. The real estate developer had built altogether seven sewage outfall for the purpose of sewage discharge in both the Jiachao's Shopping Mall and the Zone C Shopping Mall. The quality of waste water discharged by the Group met the third standard of the "Integrated Wastewater Discharge Standard"（污水綜合排放標準）(GB8978-1996) and B grade standard of the "Sewage into the City Sewer Water Quality Standard"（污水排入城市下水道水質標準）(CJ343-1996) before the waste water is transferred to the Wulongkou sewage treatment plant. According to the test data of an inspection company, the sewage discharge measured throughout the whole reporting period was approximately 40 kilograms.

Waste Management

In the public areas of the shopping malls managed by the Group, the Group has set up waste sorting bins, handles the waste in a timely manner and maintains the sanitation around the collection bins. The Group centralises the wastes collected in the public areas of the shopping malls managed by it for disposal. According to the requirements of the government departments, the Group carries out the collection of wet and dry domestic wastes and their separation in the designated areas. These wastes are then transported to the municipal solid waste recycling station for unified destruction. Moreover, the following procedures are implemented: (i) an agreement was signed with a kitchen waste treatment company which is assigned by the Zhengzhou City Municipal Government; (ii) a domestic garbage dumping certificate was obtained; (iii) an agreement was signed with a disinfect and pesticides company for regular sterilisation of public areas and merchant shops; (iv) unified collection of merchant wastes at unified recycling station and (v) uniform treatment of swill.

During the reporting period, the Group produced three types of non-hazardous waste, namely (i) 4,000 cubic meters of construction waste, such as renovation and decoration materials from tenants and promotion activities; (ii) 8,760,000 liters of domestic waste, such as packing materials and sundry items etc.; and (iii) 1,752,000 liters of kitchen waste. The intensity of these three types of non-hazardous waste production was 0.02 cubic meters/square meter, 42.67 liters/square meter and 8.53 liters/square meter, respectively. To the knowledge of the Directors, no hazardous waste is produced in the Group's operation.

During the reporting period, the measurement of the above emission and discharge were within the stipulated standards. The Group has complied with policies and relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

ENVIRONMENTAL *(Continued)*

Use of Resources

1. Electricity: Greenhouse gases emission is closely related to the consumption of energy, and the Group recognises that the main source of its energy consumption is electricity. The Group targets and, encourages its tenants to put energy conservation practices in place and support global warming mitigation, such as turning off lights after office hours and using effective energy-saving light bulbs as far as possible. During the reporting period, the Group's electricity consumption consists of commercial electricity provided to the investment properties and details of which are set out below. The electricity consumption of the Group during the reporting period was approximately 36,228,000 kWh and the energy consumption intensity was 176.46 kWh/square meter.

   Henan Electricity Company Zhengzhou Branch provides commercial electricity to the Group's investment properties. The charges of electricity usage in office, public facilities such as landscape area, public access etc. are borne by the Group while tenants of each commercial unit bear their own costs based on independent measurement by meters. The electricity consumption of the Group supplied by Henan Electricity Company Zhengzhou Branch was approximately 36,228,000 kWh during the reporting period.

   The Group responded to the call of the state by actively participating in the Zhengzhou City Power Sales Platform jointly organised by the Zhengzhou City Municipal Government and the National Development and Reform Commission. A power sales agreement was signed by the Group which in turn benefits the Group by reducing electricity costs and saving energy. Furthermore, the Group has cooperated with the implementation of the document issued by the Zhengzhou City Municipal Government, namely, the "Encourage electricity consumption for large-sized businesses and enterprises, and reduce electricity consumption costs"（對大型商業、企業鼓勵用電，降低用電費用）, and achieved the effect of electricity price reduction by over 1.2% in the reporting period.

2. Water consumption: Zhengzhou Tap Water Investment Holdings Co., Ltd. provides urban water for commercial use in office and public facilities such as public restrooms. Such water fee is borne by the Group while tenants of each commercial unit bear their own water fee based on independent measurement by meters. The water fee includes the sewage charge paid to the government. The water consumption of the Group was approximately 348,000 cubic meters and the water consumption intensity was approximately 1.70 cubic meters/square meter during the reporting period.

   The Group did not have any issue in sourcing water that is fit for purpose. The Group also renovated partial bathrooms in the Jiachao's Shopping Mall by replacing old faucets with faucets that could achieve water saving. Secondly, the Group increased the posting of "Water Conservation" signage in the Jiachao's Shopping Mall, and the service counters broadcast water conservation promotion from time to time in order to improve the awareness of water conservation for customers and employees. Though water consumption slightly increased during the reporting period for the purpose of hygiene and good service quality, the Group continues to strive to lower water consumption through the above policies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL *(Continued)*

Use of Resources *(Continued)*

3. Natural gas: The real estate developer installed eight boilers in both shopping malls so as to provide heating to office and public areas during the period from 30 November 2018 to 15 March 2019. These boilers were functioned by natural gas which was supplied by Zhengzhou Vanguard Natural Gas Holdings Co., Ltd. and the heating cost was borne by the Group. The natural gas consumption of the Group was approximately 449,000 cubic meters and the natural gas consumption intensity was 2.19 cubic meters/square meter during the reporting period.

   During the period from 30 November 2018 to 15 March 2019, the heating was turned on only when the investment properties were opened and the heating was turned off when the investment properties were closed. The flow of natural gas is determined by the weather through adjusting the size of valves. Though natural gas consumption slightly increased during the reporting period, the Group continues to strive to reduce heating price through the above policies.

The Environment and Natural Resources

The Group strictly abides by the requirements of the relevant environmental protection laws and regulations, departmental regulations and local regulations during the implementation of large-scale marketing and promotional activities. Equipment used in these activities are all made by environmentally-friendly materials and there is no pollution such as waste smoke, waste water, waste garbage and noise. No pollution accidents and no illegal activities such as violation of pollution discharge regulations or environmental pollution have occurred.

Marketing and promotional activities

1. In the large-scale marketing and promotional activities, only environmentally-friendly materials and equipment are used while dangerous goods such as fireworks and firecrackers that generate waste smoke and waste gas are restricted to be used.

2. Large-scale marketing and promotional activities are arranged indoors as far as possible. The volume of outdoor activities is controlled within 70 decibels and these activities are finished by nine o'clock in the evening to avoid unnecessary noise pollution.

3. After completion of these activities, activity materials and domestic garbage are disposed of properly to reduce environmental pollution.

Ecological environment

The Group has arranged green area of 2,550 square meters so as to improve the ecological environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment

The Group complies with and implements the relevant laws and regulations of the PRC including, the "Labour Law"(勞動法), "Recruitment Management Approach"(招聘管理辦法), "Pay Management Approach"(薪酬管理辦法), "Attendance Management Approach"(考勤管理辦法) and "Promotion Management Approach"(晉升管理辦法) in respect of recruitment, employment, working hours and resignation without any violation of "Labor Law" up-to-date. The Group sets grassroots positions with equal pay and provides employees from top level to bottom level with standard welfare. The Group establishes a fair and impartial promotion mechanism to ensure there is no discrimination or bias on age, sex, geographical etc. at the time of employment. Moreover, the employment laws and regulations, including the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) are applied to the employees in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding remuneration, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and termination of employment.

Health and Safety

The Group has strictly complied with the relevant laws and regulations of the PRC including the "Employer's Occupational Disease Hazard Prevention and Control Regulations"(用人單位職業病危害防治八條規定), pursuant to which it is necessary to carry out health check, archive personal details for engineering and technical posts and arrange insurance for the employees. The Group provides qualified protective equipment during work process and erects warning notices during the construction process in order to ensure the safety of employees. Moreover, the laws and regulations, including the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and the Occupation Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) are strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding safe working environment and prevention of occupation hazard workplace. The Group neither reported work-related accidents and injuries from employees nor recorded any lost days due to work injury during the reporting period.

Development and Training

In order to cultivate internal staff, according to the relevant provisions of the Group's "Internal Training and Training Points Management System", the Group adopts the combination of internal training and external training. There are two types of internal training, namely training hosted by internal lecturers and external lecturers. Theme topics and contents of these trainings are tailor-made for staff at mid-to-high-level and elementary level. Since 2017, a training card system has been set up for each employee who should accumulate at least 12 points in one year to fulfill one of the appraisal criteria. External training is divided into two categories: the first category is to organise activities every year to improve staff cohesion, such as hiking; the second category is the technical/professional training, such as technician certification and fire certification. The Group bears training costs and grants time for employees to attend external training so as to improve their professional skills.

Labour Standards

The Group abides by the standard requirements of the "Labour Law"(勞動法) in full in the recruitment of employees in the PRC in the screening of resume and interview. Structured interview method and written examination are used for interview process. The Group further confirms the authenticity of employee candidate's information, including age, through background checks. The Group prohibits the employment of any child labour or forced labour, and there is no child labour or forced labour noted in the Group. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding prohibition of child labour and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL *(Continued)*

Supply Chain Management

According to the "Seven Principles of Supply Chain Management", the Group, based on the required service characteristics, divides the suppliers into different categories, namely procurement suppliers, constructors and external security and cleaning suppliers. The Group selects suppliers and constructors through a unified form of bidding for screening and clearly sets out the standard specifications. A number of departments unify calibration in accordance with the tender requirements. In the process of cooperation, the Group sets up a number of links for control and audit by a number of departments and establishes information systems of supply chain so as to achieve win-win cooperation. At the end of the year, all suppliers and constructors will be surveyed to review their quality of service. For external security and cleaning suppliers, the Group develops an assessment system for assessment and supervision. The assessment system is linked with wage and the implementation of reward and punishment system, thereby to enhance the quality of field service.

Product Responsibility

According to the provisions of the "Product Liability Insurance", products sold by tenants must be genuine and no fake and shoddy products shall be put up for sale. Catering business should obtain the "Food Safety Permit" and employees should hold health certificate for their posts. The Group, as the owner of investment properties, is required to have public liability insurance. In the ordinary operation, the Jiachao's Shopping Mall has a customer service desk which is designed to deal with customers' complaints and any difficult problems. In order to protect the legitimate and safe operation of tenants, the Group also provides them with advertising and fire safety knowledge training regularly. Apart from providing the above services to tenants, the Group conducts a comprehensive supervision and management on them in the usual business operations. The Group's mission is to provide a safe and effective place for business operations of tenants and also to provide customers with a safe, comfortable and healthy shopping environment. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters in relation to products and services provided and methods of redress. During the reporting period, the Group did not receive any complaints from the tenants about its services.

Anti-corruption

In order to prevent employees, suppliers and tenants from bribery behavior, the Group adopted some measures in this regard. First of all, the Group signs "Honest Agreement" with employees and tenants and "Cooperation Honest Agreement" with suppliers. Secondly, the Group sets up compliant hotline and if any of the employees is found to be engaging in bribery, the Group would strictly follow the "Reward and Punishment Management System" and impose penalty to the involved employees accordingly. Besides, the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong) is strictly adhered to by the Group in Hong Kong. During the reporting period, the Group has complied with policies and relevant laws and regulations regarding anti-bribery, extortion, fraud and money laundering. During the reporting period, the Group did not have any corruption lawsuit cases.

Community Investment

The opening of the Jiachao's Shopping Mall and the Jiacong's Shops not only improves the facilities for the residents living nearby, but also provides a very convenient shopping environment for a vast number of consumers in different kinds, as well as to create over 7,000 job opportunities. There is an affirmative contribution to the community, especially in children's entertainment, education and culture aspects, which is expected to be more prosperous in next few decades. The operation of the Jiachao's Shopping Mall and the Jiacong's Shops definitely stimulates the consumption level of the western part of Zhengzhou City.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX

Aspect/description and KPI		Section/statement	Page no.
	A. Environmental		
A1 Emissions			
A1	General disclosure	Emissions	32
A1.1	Types of emissions and respective emission data	Emissions	32
A1.2	Greenhouse gas emissions in total, and where appropriate, intensity	Emissions	32
A1.3	Total hazardous waste produced and, where appropriate, intensity	Not applicable. No hazardous waste was generated in the Group's operation.	–
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	Emissions	32
A1.5	Description of measures to mitigate emissions and results achieved	Emissions	32
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Emissions	32
A2 Use of resources			
A2	General disclosure	Use of Resources	34
A2.1	Direct and/or indirect energy consumption by type in total and intensity	Use of Resources	34
A2.2	Water consumption in total and intensity	Use of Resources	34
A2.3	Description of energy use efficiency initiatives and results achieved	Use of Resources	34
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Use of Resources	34
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable. No packaging material was used in the Group's operations.	–
A3 The Environment and natural resources			
A3	General disclosure	The Environment and Natural Resources	35
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Environment and Natural Resources	35

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

Aspect/description and KPI		Section/statement	Page no.
	B. Social		
B1 Employment and labour practice			
B1	General disclosure	Employment	36
B1.1	Total workforce by gender, employment type, age group and geographical region	Not disclosed	–
B1.2	Employee turnover rate by gender, age and geographical region	Not disclosed	–
B2 Health and safety			
B2	General disclosure	Health and Safety	36
B2.1	Number and rate of work-rated facilities	Health and Safety	36
B2.2	Lost days due to work injury	Health and Safety	36
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety	36
B3 Development and training			
B3	General disclosure	Development and Training	36
B3.1	Percentage of employees trained by gender and employee category	Not disclosed	–
B3.2	Average training hours completed per employee by gender and employee category	Not disclosed	–
B4 Labour standards			
B4	General disclosure	Labour Standards	36
B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards	36
B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards	36
B5 Supply chain management			
B5	General disclosure	Supply Chain Management	37
B5.1	Number of suppliers by geographical region	Not disclosed	–
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management	37

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX *(Continued)*

Aspect/description and KPI		Section/statement	Page no.
B6 Product responsibility			
B6	General disclosure	Product Responsibility	37
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to the Group's operations	–
B6.2	Number of products and service related complaints received and how they are dealt with	Product Responsibility	37
B6.3	Description of practices relating to observing and protecting intellectual property rights	Not disclosed	–
B6.4	Description of quality assurance process and recall procedures	Not applicable to the Group's operations	–
B6.5	Description of customer data protection and privacy policies, how they are implemented and monitored	Not disclosed	–
B7 Anti-corruption			
B7	General disclosure	Anti-corruption	37
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-corruption	37
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption	37
B8 Community investment			
B8	General disclosure	Community Investment	37
B8.1	Focus areas of contribution	Community Investment	37
B8.2	Resources contributed to the focus area	Community Investment	37

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ART GROUP HOLDINGS LIMITED
錦藝集團控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Art Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 120, which comprise the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 30 June 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of investment properties	**Our major procedures to address the fair value measurement of investment properties included the following:**
We identified the fair value measurement of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with significant judgments associated with determining the fair value. As disclosed in note 16 to the consolidated financial statements, the Group's investment properties amounted to HK$2,807 million, as at 30 June 2019 represented 89% of the Group's total assets. Fair value changes on investment properties of HK$20 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. As disclosed in note 16 to the consolidated financial statements, the investment properties are stated at fair value based on valuation performed by an independent professional property valuer. The fair value of the Group's investment properties were determined by adopting the valuation techniques with significant unobservable inputs, assumptions of market conditions and judgements. The Group also worked closely with the independent professional property valuers to establish and determine the appropriate valuation techniques.	• Evaluating the competence, capabilities and objectivity of the independent professional property valuer; • Obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations; • Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices and rentals achieved in other similar properties in the neighbourhood; • Evaluating the reasonableness of the information provided by the management to independent professional property valuer and • Assessing the integrity of information provided by the management to the independent professional property valuer by comparing the details of operational performance, on a sample basis, to the respective underlying existing lease agreements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 30 June 2019 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Kai Yin with Practising Certificate number P05131.

Elite Partners CPA Limited
Certified Public Accountants

10th Floor
8 Observatory Road
Tsim Sha Tsui,
Kowloon, Hong Kong

27 September 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Revenue	*7*	**211,818**	199,219
Cost of sales		**(63,683)**	(61,080)
Gross profit		**148,135**	138,139
Other income	*8*	**16,066**	13,481
Administrative expenses		**(26,719)**	(26,971)
Share-based payment expenses		**–**	(54,022)
Other expenses		**(3)**	(792)
Change in fair values of investment properties	*16*	**(19,541)**	107,143
Gain on disposal of subsidiaries	*31*	**4,400**	1,697
Finance costs	*9*	**(29,416)**	(32,693)
Profit before taxation		**92,922**	145,982
Income tax expense	*10*	**(16,483)**	(33,787)
Profit for the year	*11*	**76,439**	112,195
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**(84,328)**	57,007
Other comprehensive (loss)/income for the year (net of tax)		**(84,328)**	57,007
Total comprehensive (loss)/income for the year		**(7,889)**	169,202
Profit for the year attributable to:			
Owners of the Company		**55,925**	67,599
Non-controlling interests		**20,514**	44,596
		76,439	112,195
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(11,273)**	113,325
Non-controlling interests		**3,384**	55,877
		(7,889)	169,202
EARNINGS PER SHARE	*14*		
Basic (HK cents per share)		**2.08**	2.52
Diluted (HK cents per share)		**2.08**	2.51

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,482**	6,757
Investment properties	16	**2,806,818**	3,208,333
Goodwill	17	**34,764**	63,549
		2,846,064	3,278,639
CURRENT ASSETS			
Trade and other receivables	18	**278,114**	20,016
Bank balances and cash	19	**32,377**	18,121
		310,491	38,137
CURRENT LIABILITIES			
Trade and other payables	20	**65,309**	77,958
Contract liabilities	21	**31,814**	–
Amount due to a substantial shareholder	22	**239,497**	264,537
Secured bank borrowings	23	**89,773**	85,714
Tax liabilities		**9,046**	836
		435,439	429,045
NET CURRENT LIABILITIES		**(124,948)**	(390,908)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,721,116**	2,887,731
CAPITAL AND RESERVES			
Share capital	26	**26,888**	26,888
Share premium and reserves		**1,454,600**	1,465,873
Equity attributable to owners of the Company		**1,481,488**	1,492,761
Non-controlling interests	27	**375,138**	371,754
Total equity		**1,856,626**	1,864,515
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	**424,658**	480,122
Secured bank borrowings	23	**404,545**	517,857
Bonds	24	**35,287**	25,237
		864,490	1,023,216
		2,721,116	2,887,731

The consolidated financial statements on pages 46 to 120 were approved and authorised for issue by the board of directors on 27 September 2019 and are signed on its behalf by:

Chen Jinyan
DIRECTOR

Chen Jindong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 July 2017	26,850	262,943	136	(109,097)	575	1,143,327	1,324,734	315,877	1,640,611
Profit for the year	–	–	–	–	–	67,599	67,599	44,596	112,195
Other comprehensive income for the year									
– Exchange difference arising on translation	–	–	–	45,726	–	–	45,726	11,281	57,007
Total comprehensive income for the year	–	–	–	45,726	–	67,599	113,325	55,877	169,202
Issue of shares under employee share option plan	38	907	–	–	(265)	–	680	–	680
Recognition of equity-settled share-based payment expenses	–	–	–	–	54,022	–	54,022	–	54,022
At 30 June 2018	26,888	263,850	136	(63,371)	54,332	1,210,926	1,492,761	371,754	1,864,515
Profit for the year	**–**	**–**	**–**	**–**	**–**	**55,925**	**55,925**	**20,514**	**76,439**
Other comprehensive loss for the year									
– Exchange difference arising on translation	**–**	**–**	**–**	**(67,198)**	**–**	**–**	**(67,198)**	**(17,130)**	**(84,328)**
Total comprehensive (loss)/ income for the year	**–**	**–**	**–**	**(67,198)**	**–**	**55,925**	**(11,273)**	**3,384**	**(7,889)**
Disposal of a subsidiary	**–**	**–**	**–**	**4,749**	**–**	**(4,749)**	**–**	**–**	**–**
Lapse of shares under employee share option plan	**–**	**–**	**–**	**–**	**(5,402)**	**5,402**	**–**	**–**	**–**
At 30 June 2019	**26,888**	**263,850**	**136**	**(125,820)**	**48,930**	**1,267,504**	**1,481,488**	**375,138**	**1,856,626**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	NOTES	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**76,439**	112,195
Adjustment for:			
Income tax expense recognised in profit and loss		**16,483**	33,787
Change in fair values of investment properties		**19,541**	(107,143)
Depreciation of property, plant and equipment		**3,164**	2,581
Gain on disposal of subsidiaries		**(4,400)**	(1,697)
Share-based payment expenses		**–**	54,022
Finance costs recognised in profit or loss		**29,416**	32,693
Interest income		**(60)**	(57)
Gain on disposal of property, plant and equipment		**(6)**	–
Movements in working capital		**140,577**	126,381
(Increase)/Decrease in trade and other receivables		**(124,982)**	5,722
Increase in trade and other payables		**103,724**	13,419
Increase in contract liabilities		**11,303**	–
Cash generated from operations		**130,622**	145,522
Income tax paid		**(12,868)**	(12,483)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**117,754**	133,039
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(1,241)**	(1,598)
Interest received		**60**	57
Proceed from disposal of property, plant and equipment		**75**	–
Net cash inflow/(outflow) from disposal of subsidiaries	*31*	**11,321**	(2,303)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**10,215**	(3,844)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	NOTES	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amount due to a substantial shareholder		**(13,375)**	(39,810)
Issue of shares		**–**	680
Repayment of bank borrowings		**(82,759)**	(72,619)
Proceeds from issue of bonds		**10,000**	–
Interest paid on bank borrowings		**(26,640)**	(30,620)
Interest paid on bonds		**(2,726)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(115,500)**	(142,369)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**12,469**	(13,174)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		**1,787**	836
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**18,121**	30,459
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	*19*	**32,377**	18,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Fully Chain Limited, a private company incorporated in the British Virgin Islands ("BVI"). Its ultimate controlling party is Mr. Chen Jinyan. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 34.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 July 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Rental income (not within the scope of HKFRS 15); and
- Property management fee income and other related services (within the scope of HKFRS 15).

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in notes 3 and 4 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made.

	Carrying amounts under HKAS 18 at 30 June 2018	**Remeasurement**	**Carrying amounts under HKFRS 15 at 1 July 2018**
	HK$'000	HK$'000	HK$'000
Current liabilities			
Trade and other payables	77,958	(21,621)	56,337
Contract liabilities	–	21,621	21,621

(a) As at 1 July 2018, receipts in advance for property management fee income of approximately HK$21,621,000 were reclassified to contract liabilities upon application of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Summary of effects arising from initial application of HKFRS 15 *(Continued)*

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 30 June 2019 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the statement of financial position

	As report	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$'000	HK$'000	HK$'000
Current liabilities			
Trade and other payables	65,309	31,814	97,123
Contract liabilities	31,814	(31,814)	–

Impact on the statement of cash flows

	As report	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$'000	HK$'000	HK$'000
OPERATING ACTIVITIES			
Increase in trade and other payables	103,724	11,303	115,027
Increase in contract liabilities	11,303	(11,303)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and loan commitment and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The directors of the Company considered that the initial application of HKFRS 9 has no material impact on the consolidated financial statements of the Group in respect of the classification and measurement of financial instruments nor recognised additional impairment loss allowance as amounts involved are immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associate and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of HK$9,174,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$291,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties that are measured at fair values at the end of each reporting period as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of consolidated financial statements

The Group had net current liabilities of approximately HK$124,948,000 as at 30 June 2019. Nevertheless, the directors of the Group are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from the end of the reporting period given that: i) the Group's ability to renew or refinance the banking facilities upon maturity; ii) continuous effort to control cost of the Group; iii) a substantial shareholder has confirmed he will not exercise his discretion to demand repayment for the twelve months from the end of the reporting period to enable the Group to continue operation for the foreseeable future.

In addition, in order to improve the Group's financial position, liquidity and cash flows, the Company has issued a new unlisted and non-transferable bond at face value of HK$9,000,000 to an independent third party on 1 August 2019. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the two anniversary of the respective date of issue.

The Group obtained a new bank borrowings of RMB435,000,000 and RMB365,000,000 with bearing floating interest rate at 6.5% per annum on 29 July 2019 and 6 August 2019 respectively and repayable on 29 July 2029, which were secured by the Group's investment properties and guaranteed by a substantial shareholder, in order to improve the Group's financial position, liquidity and cash flow.

Accordingly, the directors of the Group are of the opinion that it is appropriate to prepare the financial information on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

– potential voting rights held by the Group, other vote holders or other parties;

– rights arising from other contractual arrangements; and

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interest.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on the pro rata basis of the carrying amount of each asset in the unit (or groups of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property management service income is recognised when services are provided.

Rentals from car parks are recognised on an accrual basis.

Service fees and charges such as air conditioning income arising from the provision of services are recognised when such services are rendered.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transactions costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period for which they arise.

Investment properties are derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An item of property, plant and equipment is transferred to investment property when there is a change of use, as evidenced by end of owner-occupation. The cost and accumulated depreciation of that item at the date of transfer is recognised as the cost and accumulated depreciation of the investment property respectively.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, expect where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

– exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share-based payment transactions of the Company

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 July 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt interest/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9) *(Continued)*

(i) *Significant increase in credit risk (Continued)*

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9) *(Continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9) *(Continued)*

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group);

- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 July 2018)

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 July 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amount due to a substantial shareholder, secured bank borrowings and bonds) are subsequently measured at amortised cost, using the effective interest method.

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting a financial asset and a financial liability

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of the Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily obtainable from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Measurement of ECL

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

– Determining criteria for significant increase in credit risk;

– Selecting appropriate models and assumptions for the measurement of ECL; and

– Establishing the relative probability weightings of forward looking scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Measurement of ECL *(Continued)*

Significant increase in credit risk

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 6. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgements involved.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 6 for more details on ECL.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining the recoverable amount of goodwill requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. At 30 June 2019, the carrying amount of goodwill is HK$34,764,000 (2018: HK$63,549,000). Details of the recoverable amount calculation are disclosed in note 17.

Measurement of ECL

Impairment assessment under ECL for trade receivables

The Group uses a provision matrix to calculate ECL for the trade receivables that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Measurement of ECL *(Continued)*

Impairment assessment under ECL for trade receivables (Continued)

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 6.

Impairment assessment under ECL for financial assets at amortised cost other than trade receivables (including other receivables and bank balances and cash)

The impairment assessment under ECL for financial assets at amortised cost (including other receivables and bank balances and cash) is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instrument.

Inputs, assumptions and estimation techniques

ECL is the discounted product of expected future cash flows by using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), of which PD and LGD are estimates based on significant management judgement. For credit-impaired financial assets, the management perform individual assessment for each client by considering various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Company and subsequent settlement and additional collaterals received.

In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost is disclosed in note 6.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 30 June 2019 and 30 June 2018, using the term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest, the direct capitalisation method by assuming a stabilised economic income capitalised by a market yield rate and the direct comparison approach with reference to the sales transactions of the comparable properties by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the valuation techniques and assumptions have been disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the Group has recognised deferred taxes on changes in fair value of investment properties in relation to the PRC's land appreciation tax, which is the additional tax to be charged if a property in the PRC is recovered through sale. As at 30 June 2019, the carrying amount of these properties was HK$2,806,818,000 (2018: HK$3,208,333,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in note 23, bonds disclosed in note 24 and equity attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with the capital. The Group will balance its overall capital structure through the payments of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

In addition to capital risk management, there is a concentration risk on location of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its net assets is related to the economic conditions in the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different locations with different risk profiles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
At amortised costs (2018: Loan and receivables):		
Financial assets included in trade and other receivables	**273,693**	16,814
Bank balances and cash	**32,377**	18,121
	306,070	34,935
Financial liabilities		
At amortised cost:		
Trade and other payables	**44,365**	48,423
Amount due to a substantial shareholder	**239,497**	264,537
Secured bank borrowings	**494,318**	603,571
Bonds	**35,287**	25,237
	813,467	941,768

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, secured bank and other borrowings and bonds. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall policies remain unchanged from prior years.

Market risk

(i) Currency risk

Certain bank balances and bonds are denominated in United States dollars ("USD") and HKD which are currencies other than functional currency of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The group entities are mainly exposed to the fluctuation of USD and HKD against RMB.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2018: 5%) change in foreign currency rates.

The sensitivity analysis includes USD and HKD denominated bank balances and bonds, as appropriate. A positive or negative number below indicates an increase or a decrease in post-tax loss where RMB strengthen 5% (2018: 5%) against the relevant currency. For a 5% (2018: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

	HKD Impact *(Note)*		**USD Impact** *(Note)*	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Profit or loss	**(1,211)**	(720)	**1**	1

(Note) This is mainly attributable to the exposure outstanding on USD or HKD bank balances and bonds not subject to cash flow hedge at the end of the reporting period in the Group.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank borrowings (see note 23 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB denominated bank borrowings.

The Group is also exposed to fair value interest rate risk in relation to bank balances, bank borrowings and bonds, as set out in notes 19, 23 and 24, respectively.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group maintains floating-rate borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period carried at floating market interest rate. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2018: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 30 June 2019 would decrease/increase by HK$3,707,000 (2018: HK$4,527,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

(iii) Other price risk

The Group is not exposed to significant other price risk. Management monitors other price risks and will consider hedging significant price exposure should the need arise.

Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's concentration of credit risk by geographical location is mainly in PRC.

Credit risk on bank balances and cash is mitigated as counterparties are banks or financial institutions with high credit rating.

Maximum exposure to credit risk which will cause a financial loss to the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate allowances are made for irrecoverable amounts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 30 June 2019, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank balances

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivable	Other financial assets
Low risk	The counter party has a low risk of default and does not have any past-due amounts.	Lifetime ECL not credit impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources.	Lifetime ECL not credit impaired	Lifetime ECL not credit impaired
Loss	There is evidence indicating the asset is credit impaired.	Lifetime ECL credit impaired	Lifetime ECL credit impaired
Written-off	There is evidence indicating that debtor is severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank balances (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2019	*Notes*	**External Credit rating**	**Internal Credit rating**	**12-month or lifetime ECL**	**Gross carrying amounts**
Financial assets at amortised cost					
Trade receivables *(note 1)*	*18*	N/A	Low risk	Lifetime ECL (provision matrix)	31,409,000
Other receivables *(note 2)*	*18*	N/A	Low risk	12-month ECL	246,705,000
Bank balances and cash *(note 3)*	*19*	Baa2	Low risk	12-month ECL	32,377,000

Notes:

(1) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant balances or credit impaired, the Group determines the ECL on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' ageing and corresponding rental deposit to assess the impairment of trade receivables from customers in relation to its business of property operating because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Trade receivables with carrying values of HK$31,409,000 are assessed based on provision matrix within lifetime ECL (not credit impaired).

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. During the year ended 30 June 2019, no impairment allowance on trade and other receivables are provided based on the provision matrix assessed individually as the amounts involved are immaterial.

(2) Included in deposits are amounts representing refundable utility and rental deposits which the Group is entitled but held by landlord. The Group assessed the loss allowance for these other receivables on 12-month ECL basis. In determining the ECL, the Group has taken into account the historical default experience and forward-looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.

(3) The credit risk on bank balances (including segregated and general accounts) are limited because the counterparties are with high credit ratings assigned by international credit rating agencies. Majority of bank balances are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group has net current liabilities of HK$124,948,000 as at 30 June 2019 (2018: HK$390,908,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 30.6.2019 HK$'000
2019								
Non-derivative financial liabilities								
Trade and other payables	N/A	65,309	–	–	–	–	65,309	65,309
Amount due to a substantial shareholder	N/A	239,497	–	–	–	–	239,497	239,497
Bank borrowings								
– floating-rate	4.9%	1,991	15,170	94,748	448,418	–	560,327	494,318
Bonds	8.00% – 8.33%	–	–	2,829	30,554	11,301	44,684	35,287
		306,797	15,170	97,577	478,972	11,301	909,817	834,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts at 30.6.2018 HK$'000
2018								
Non-derivative financial liabilities								
Trade and other payables	N/A	77,958	–	–	–	–	77,958	77,958
Amount due to a substantial shareholder	N/A	264,537	–	–	–	–	264,537	264,537
Bank borrowings								
– floating-rate	4.9%	2,465	14,408	96,434	451,562	135,967	700,836	603,571
Bonds	8.05% – 8.33%	–	–	–	31,410	–	31,410	25,237
		344,960	14,408	96,434	482,972	135,967	1,074,741	971,303

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis, if any.

The amounts included above for floating interest rate instruments for non-derivative financial liabilities are subject to change if changes in floating interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the lease payments received and receivable in the normal course of business, net of related taxes for the year. The Group is engaged in the property operating during the year.

Information reported to the Board of the Company, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

For the reporting period, management of the Company has determined that the Group has two operating segments (2018: One) as the Group is engaged in the property operating and biotechnology, which is the basis used by the CODM to allocate resources and assess performance. From a product perspective, management assesses the performance from property operating and biotechnology for the years ended 30 June 2019 and 30 June 2018.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit or loss from the segments without allocation of income tax expense and central administration costs.

One single tenant from property operating segment contributed to 10 per cent or more of the Group's revenue for the year ended 30 June 2019 (2018: One). The total amount of revenue from this tenant was HK$29,118,000 (2018: HK$31,851,000).

Revenue from major business services:

	2019 **HK$'000**	2018 HK$'000
Revenue from major business services:		
Revenue within the scope of HKAS 17		
Rental income from leasing of properties	**74,570**	72,876
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**111,520**	97,828
Property management – other related services	**25,728**	28,515
	137,248	126,343
	211,818	199,219
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**111,520**	97,828
Property management – other related services	**25,728**	28,515
	137,248	126,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Performance obligations for revenue from contract with customers

(i) Property management fee

Property management fee is recognised over the service period. The Group receives monthly property management fee payments from customers one to three months in advance under the contracts.

(ii) Biotechnology

There was no revenue generated in biotechnology segment during the reporting period.

Segment information

The chief operating decision maker assesses the performance of the property operating segment based on sales and net profit.

2019	**Property operating HK$'000**	**Biotechnology HK$'000**	**Consolidated HK$'000**
Revenue	211,818	–	211,818
Segment result	102,651	(600)	102,051
Income tax expense	(16,483)	–	(16,483)
Gain on disposal of subsidiaries			4,400
Central administration costs			(13,529)
Profit for the year			76,439
Amounts included in the measure of segment profit			
Depreciation	3,154	–	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

2018	Property operating HK$'000	Consolidated HK$'000
Revenue	199,219	199,219
Segment result	211,382	211,382
Income tax expense	(33,787)	(33,787)
Gain on disposal of subsidiaries		1,697
Central administration costs		(67,097)
Profit for the year		112,195
Amounts included in the measure of segment profit		
Depreciation	2,573	

No geographical market analysis is provided as the Group's revenue and contribution to segment results were substantially derived from the tenants in the PRC and the assets are substantially located in the PRC.

8. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	**60**	57
Car parking income	**7,110**	6,219
Service income	**8,223**	7,192
Exchange gain	**565**	–
Others	**108**	13
	16,066	13,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

9. FINANCE COSTS

	2019 **HK$'000**	2018 HK$'000
Interest on		
– Bank and other borrowings wholly repayable over five years	**26,640**	30,620
– Bonds	**2,776**	2,073
	29,416	32,693

10. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**21,368**	14,165
– Overprovision in previous years	**–**	(8,414)
Deferred tax *(note 25)*	**(4,885)**	28,036
	16,483	33,787

10. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax was calculated at 16.5% (2018: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25%.

At 30 June 2019, no deferred tax liabilities (2018: HK$1,250,000) were recognised in respect of the undistributed retained earnings of the PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC, which are set out in note 25.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 **HK$'000**	2018 HK$'000
Profit before taxation	**92,922**	145,982
Tax at the income tax rate of 25% (2018: 25%)	**23,231**	36,495
Tax effect of expenses not deductible for tax purpose	**3,435**	17,103
Tax effect of income not taxable for tax purpose	**(1,100)**	(635)
Tax effect of deductible temporary differences not recognised	**(9,083)**	(8,946)
Tax effect of tax losses utilized	**–**	(3,066)
Deferred tax on undistributed earnings of PRC's subsidiaries	**–**	1,250
Tax effect of overprovision in previous years	**–**	(8,414)
Income tax expense recognised in profit or loss	**16,483**	33,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

11. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments	4,008	4,016
– other staff's salaries and other benefits	15,583	14,057
– other staff's retirement benefit scheme contributions	2,032	2,008
– share-based payment expenses	–	54,022
	21,623	74,103
Auditor's remuneration	1,100	1,090
Depreciation of property, plant and equipment	3,164	2,581
Exchange (gain)/loss	(565)	705
Gain on disposal of property, plant and equipment	(6)	–

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the six (2018: seven) directors were as follows:

(a) Directors' emoluments

Details of emoluments of individual directors are set out as follows:

2019

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chen Jindong	–	1,800	18	1,818
Mr. Chen Jinyan	–	1,800	18	1,818
Mr. Kwan Chi Fai	120	–	–	120
Mr. Lin Ye	36	–	–	36
Mr. Yang Zeqiang	96	–	–	96
Ms. Chong Sze Pui Joanne	120	–	–	120
	372	3,600	36	4,008

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

2018

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chen Jindong	–	1,800	18	1,818
Mr. Chen Jinyan	–	1,300	18	1,318
Mr. Chen Jinqing	–	500	8	508
Mr. Kwan Chi Fai	120	–	–	120
Mr. Lin Ye	36	–	–	36
Mr. Yang Zeqiang	96	–	–	96
Ms. Chong Sze Pui Joanne	120	–	–	120
	372	3,600	44	4,016

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 30 June 2019 included two (2018: three) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining three (2018: two) individuals are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**3,600**	1,489
Retirement benefit scheme contributions	**36**	18
	3,636	1,507

Their emoluments were all within nil to HK$1,000,000.

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND PAID

No dividend was paid or proposed for the year ended 30 June 2019 nor has any dividend been proposed since the end of the reporting period (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

14. EARNINGS PER SHARE

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

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	**55,925**	67,599

	2019 HK$'000	2018 HK$'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,688,805**	2,685,432
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**1,795**	4,508
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,690,600**	2,689,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST				
At 1 July 2017	7,525	1,742	2,210	11,477
Additions	–	33	1,565	1,598
Transfer	3,854	–	(3,854)	–
Disposal of subsidiaries	–	(10)	–	(10)
Exchange realignment	258	55	79	392
At 30 June 2018 and 1 July 2018	11,637	1,820	–	13,457
Additions	**1,222**	**19**	**–**	**1,241**
Disposal	**–**	**(195)**	**–**	**(195)**
Exchange realignment	**(529)**	**(69)**	**–**	**(598)**
At 30 June 2019	**12,330**	**1,575**	**–**	**13,905**
ACCUMULATED DEPRECIATION				
At 1 July 2017	3,025	974	–	3,999
Provided for the year	2,290	291	–	2,581
Disposal of subsidiaries	–	(4)	–	(4)
Exchange realignment	97	27	–	124
At 30 June 2018 and 1 July 2018	5,412	1,288	–	6,700
Provided for the year	**2,941**	**223**	**–**	**3,164**
Disposal	**–**	**(126)**	**–**	**(126)**
Exchange realignment	**(266)**	**(49)**	**–**	**(315)**
At 30 June 2019	**8,087**	**1,336**	**–**	**9,423**
CARRYING VALUES				
At 30 June 2019	**4,243**	**239**	**–**	**4,482**
At 30 June 2018	6,225	532	–	6,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on straight-line basis at the following rates per annum:

Leasehold improvements	20% – 25%
Furniture, fixtures, office equipment and motor vehicles (with 5% residual value on the cost)	16% – 33%

16. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
Fair value		
Balance at the beginning of the year	**3,208,333**	2,994,253
Disposal	**(236,364)**	–
Change in fair values of investment properties	**(19,541)**	107,143
Exchange realignment	**(145,610)**	106,937
Balance at the end of the year	**2,806,818**	3,208,333
Unrealised (loss)/gain on property revaluation included in profit or loss	**(19,541)**	107,143

The carrying value of investment properties shown above comprises properties situated on:

	2019 HK$'000	2018 HK$'000
Land under medium-term leases in the PRC	**2,806,818**	3,208,333

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Up to the date of this report, the Group has obtained all immovable title certificates of the Group's investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

16. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties as at 30 June 2019 has been arrived at on the basis of a valuation carried out at the end of the year by International Valuation Limited (the "Valuer"), an independent qualified professional valuer not connected with the Group. The Valuer has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The Group's investment properties were valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards. The fair value was arrived at by reference to comparable sales transactions available in the relevant market together with income approach by capitalising the net rental income derived from the existing tenancies with under various terms.

In estimating the fair value of the investment properties, the directors of the Company has considered that the highest and best use of the properties is their current use upon the application of HKFRS 13 "Fair Value Measurement". There has been no change of the valuation technique during the year.

All of the Group's investment properties are located in the PRC and classified as Level 3 in the fair value hierarchy.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works closely with the Valuer to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

The following table shows the valuation techniques used in the determination of fair values for investment properties and the key unobservable inputs used in the valuation models.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

16. INVESTMENT PROPERTIES *(Continued)*

Description	Fair value as at 30 June 2019	Fair value as at 30 June 2018	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial – shopping mall	RMB2,470,000,000 (Equivalent to HK$2,806,818,000)	RMB2,487,000,000 (Equivalent to HK$2,960,714,000)	Combination of capitalisation method and comparison method	1) reversionary yield derived from market rent and price	2019: 4.5% (2018: 5.5%, 6.25% & 13% p.a.)	The higher the reversionary yield, the lower the fair value and vice versa
				2) monthly unit rent	Market rent, taking into account direct market comparables within the property	The higher the monthly rent, the higher the fair value
Commercial – 164 shops	–	RMB208,000,000 (Equivalent to HK$247,619,000)	Combination of capitalisation method and comparison method	1) reversionary yield derived from market rent and price	2018: 7% p.a.	The higher the reversionary yield, the lower the fair value and vice versa
				2) monthly unit rent	Market rent, taking into account direct market comparables within the property	The higher the monthly rent, the higher the fair value

The Group as lessor

Property rental income, management fee income and operating service income earned during the year was HK$211,818,000 (2018: HK$199,219,000). All properties have committed tenants ranging from the next 1 to 15 years and do not include an extension option.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2019	2018
	HK$'000	HK$'000
Within one year	**145,541**	156,290
In the second to fifth years inclusive	**372,288**	419,573
Over five years	**481,845**	430,920
	999,674	1,006,783

At 30 June 2019, certain investment properties of the Group with aggregate carrying values of HK$1,219,171,000 (2018: HK$1,286,017,000) were pledged to a bank to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

17. GOODWILL

	HK$'000
Cost	
At 1 July 2017, 30 June 2018 and 1 July 2018	63,549
Disposal of a subsidiary *(note 31)*	(28,785)
At 30 June 2019	34,764

Goodwill is accounted for in accordance with the Group's accounting policies as set out in note 3. At the end of the reporting period, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the property business is based on its value in use.

The recoverable amount is determined based on value in use calculation which use cash flow projection based on financial budgets approved by the directors covering a five-year period and a discount rate of 13% per annum. Cash flows beyond that five-year period have been extrapolated using a constant growth rate of 3% per annum.

The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and expected changes to revenue and direct costs during the year. The forecast is discounted using a discount rate of 13%. The discount rate was determined with reference to weighted average cost of capital of similar companies in the industry and adjusted for specific risks associated with property operation. The growth rate does not exceed the long-term average industry growth forecasts. Changes in revenue and direct costs are based on past practices and the management's expectations of future changes in the market. The Group considers no impairment loss is necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

18. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	HK$'000
Trade receivables	**31,409**	3,716
Prepayment and other receivables	**16,888**	16,300
Consideration receivable *(Note)*	**229,817**	–
	278,114	20,016

Note: The consideration receivable represents the consideration of the disposal of Zhengzhou Jiacong Property Services Company Limited on 28 June 2019. Subsequent to the financial year end, the consideration receivable was fully received on 6 September 2019.

At 30 June 2019, all trade receivables of the Group were in the functional currency of the relevant group entities.

There are no specific credit terms given to the tenants. Monthly rentals in respect of retail properties are payable in advance by tenants in accordance with the leases. The trade receivables are generally fully covered by the rental deposits from corresponding tenants. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented at the end of the reporting period, which approximated the respective revenue recognition dates:

	2019	2018
	HK$'000	HK$'000
0 – 60 days	**29,489**	3,516
61 – 90 days	**1,053**	26
Over 90 days	**867**	174
Trade receivables	**31,409**	3,716

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover potential exposure to credit risk, the allowance for ECL is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 94% (2018: 95%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

As at 30 June 2018, the Group's trade receivables balances are debtors with aggregate carrying amount of HK$200,000 which are past due but not considered impaired at the end of the reporting period. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not considered impaired is as follows:

	2018 HK$'000
1 – 60 days	–
61 – 90 days	26
Over 90 days	174
Total	200

Details of impairment assessment of trade and other receivables for the year ended 30 June 2019 are set out in note 6.

No impairment loss was provided by the Group for the year ended 30 June 2018. The Group does not hold any collateral over these balances.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging 0.125% to 0.35% (2018: 0.01% to 0.35%) per annum and have original maturity of three months or less.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2019 HK$'000	2018 HK$'000
USD	**11**	11
HKD	**11,070**	10,845

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For the year ended 30 June 2019

20. TRADE AND OTHER PAYABLES

	2019 **HK$'000**	2018 HK$'000
Receipts in advance	**20,944**	29,535
Deposits received from tenants	**32,496**	31,203
Accrued charges and other payables	**11,869**	17,220
	65,309	77,958

21. CONTRACT LIABILITIES

	30.6.2019 **HK$'000**	1.7.2018* HK$'000
Property management fee	**31,814**	21,621

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Property management fee HK$'000
As at 1 July 2018	21,621
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	
Decrease in contract liabilities as a result of	
– revenue recognised that was included in the contract liabilities balance at the beginning of the year	(21,621)
Increase in contract liabilities as a result of	
– receipts in advance of property management fee	31,814
As at 30 June 2019	31,814

22. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The amount due to a substantial shareholder is unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

23. SECURED BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Carrying amount of bank borrowings that are		
wholly repayable within one year	89,773	85,714
wholly repayable from one to five years	364,773	386,905
wholly repayable over five years	39,772	130,952
	494,318	603,571

The exposure of the Group's floating-rate borrowings are as follows:

	2019 HK$'000	2018 HK$'000
Floating-rate borrowings	494,318	603,571

The effective interest rates per annum (which are equal to contractual interest rates) on the Group's floating-rate borrowings was 4.90% for the year ended 30 June 2019 (2018: 4.90%).

The Group's secured bank borrowings are wholly repayable over five years and secured by certain investment properties as set out in note 16.

24. BONDS

On 10 July 2013, the Company issued unlisted and non-transferable bond of HK$10,000,000 to an independent third party at face value with issuing cost of HK$120,000. The bond is interest bearing at 8.00% per annum, unsecured and repayable on the seventh anniversary of the date of issue. The bond was initially recognised at HK$9,862,000 less issuing cost of HK$120,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.33% (2018: 8.33%) per annum.

On 13 August 2014, the Company issued two unlisted and non-transferable bonds at face value of HK$5,340,000 and HK$10,000,000 to two independent third parties. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recognised at HK$15,309,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.05% (2018: 8.05%) per annum.

On 8 August 2018 and 29 August 2018, the Company issued two unlisted and non-transferable bonds at face value of HK$7,000,000 and HK$3,000,000 to an independent third party. The bonds are interest bearing at 8.00% per annum, unsecured and repayable on the seventh and half anniversary of the respective date of issue. The bonds were initially recongised at HK$10,000,000 and subsequently measured at amortised cost using the effective interest method. The effective interest rate is 8.00% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

24. BONDS *(Continued)*

During the year, interests on the bonds paid by the Company was approximately HK$2,726,000 (2018: HK$2,027,000).

The movements of the Group's bonds during the year are as follows:

	HK$'000
At 1 July 2017	25,191
Effective interest charged for the year	2,073
Coupon interest paid/payable	(2,027)
At 30 June 2018	25,237
Issue of bonds	10,000
Effective interest charged for the year	2,776
Coupon interest paid/payable	(2,726)
At 30 June 2019	35,287

25. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised by the Group and movement thereon during the current and prior years.

	Fair Value adjustment on investment properties HK$'000	**Undistributable profits of PRC's subsidiaries** HK$'000	**Total** HK$'000
At 1 July 2017	436,497	–	436,497
Charge to profit or loss	26,786	1,250	28,036
Exchange realignment	15,589	–	15,589
At 30 June 2018 and 1 July 2018	478,872	1,250	480,122
Charge to profit or loss	(4,885)	–	(4,885)
Disposal of subsidiaries	(28,867)	–	(28,867)
Exchange realignment	(21,712)	–	(21,712)
At 30 June 2019	**423,408**	**1,250**	**424,658**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

25. DEFERRED TAX LIABILITIES *(Continued)*

Under the EIT Law of the PRC, certain subsidiaries are entitled to a withholding tax at the rate of 5% for dividend payments for the years ended 30 June 2019 and 30 June 2018.

The Group has no unused tax losses that may arise deferred tax assets during the years ended 30 June 2019 and 30 June 2018.

26. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Authorised:		
Ordinary shares of HK$0.01 each, at 1 July 2017, 30 June 2018, 1 July 2018 and 30 June 2019	**5,000,000,000**	**50,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each, at 1 July 2017	2,685,005,163	26,850
Exercise of share options	3,800,000	38
At 30 June 2018, 1 July 2018 and 30 June 2019	**2,688,805,163**	**26,888**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

27. NON-CONTROLLING INTERESTS

The details of a non-wholly owned subsidiary of the Group that has material non-controlling interests shown as below:

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
				HK$'000	HK$'000	**HK$'000**	HK$'000
Zhengzhou Jiachao Property Services Co. Ltd ("Zhengzhou Jiachao")	PRC/PRC	**75%**	75%	**20,514**	44,596	**375,138**	371,754

Summarised financial information in respect of Zhengzhou Jiachao that has material non-controlling interests are set out below. The summarised financial information below represented amounts before intragroup eliminations.

	As at 30 June	
	2019	2018
	HK$'000	HK$'000
Non-current assets	**2,811,271**	2,967,450
Current assets	**95,678**	166,020
Current liabilities	**(578,443)**	(679,965)
Non-current liabilities	**(827,954)**	(966,487)
	1,500,552	1,487,018
Equity attributable to owners of the Company	**1,125,414**	1,115,264
Non-controlling interests	**375,138**	371,754
	1,500,552	1,487,018

27. NON-CONTROLLING INTERESTS *(Continued)*

	As at 30 June	
	2019	2018
	HK$'000	HK$'000
Revenue	**207,751**	195,447
Other income	**15,482**	120,615
Expenses	**(141,177)**	(137,677)
Profit for the year	**82,056**	178,385
Other comprehensive (loss)/income for the year	**(68,523)**	45,125
Total comprehensive income for the year	**13,533**	223,510
Profit attributable to:		
Owners of the Company	**61,542**	133,789
Non-controlling interests	**20,514**	44,596
	82,056	178,385
Total comprehensive income attributable to:		
Owners of the Company	**10,149**	167,633
Non-controlling interests	**3,384**	55,877
	13,533	223,510
Net cash (outflow)/inflow from:		
Operating activities	**72,881**	139,196
Investing activities	**(1,021)**	(1,589)
Financing activities	**(109,399)**	(103,239)
Net cash (outflow)/inflow	**(37,539)**	34,368

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28. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 22 November 2013 (the "Effective Date") and, unless otherwise terminated or amended, will remain in force for 10 years.

As at the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 245,810,000 (2018: 272,660,000), representing approximately 9.14% (2018: 10.14%) of the issued share capital of the Company as at the date of this report. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of the Company's shares as equal to 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the Effective Date. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company which shall not be lower than the nominal value of the shares of the Company and shall be at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the grant.

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For the year ended 30 June 2019

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movements of the Company's share options held by directors, independent non-executive directors and employees during the current and prior years:

(a) The terms and conditions of the grants are as follows:

Category	Date of grant	Exercise period	Exercise price HK$	Outstanding at 1.7.2017	Exercised during the year	Granted during the year	Outstanding at 30.6.2018	Lapsed during the year	Outstanding at 30.6.2019
Directors	10.7.2008	1.8.2008 to 31.7.2018	0.179	3,800,000	(3,800,000)	–	–	–	–
Independent Non-executive Directors	22.5.2014	22.5.2014 to 21.5.2024	0.166	4,160,000	–	–	4,160,000	–	**4,160,000**
				7,960,000	(3,800,000)	–	4,160,000	–	**4,160,000**
Employees	15.1.2018	15.1.2018 to 14.1.2028	0.430	–	–	268,500,000	268,500,000	**(26,850,000)**	**241,650,000**
Granted Total				7,960,000	(3,800,000)	268,500,000	272,660,000	**(26,850,000)**	**245,810,000**
Exercisable at year end							272,660,000		**245,810,000**

(b) Fair value of option granted in the year

The fair value of the share options granted is measured at the date of grant, using the binomial option pricing model, taking into account the terms and conditions of the share-based arrangement except for non-market vesting conditions. The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The inputs into the model are as follows:

	Option 2018
Share price on grant date	HK$0.430
Expected volatility	62%
Expected life of the options	10 years
Risk free rate	2.37%
Expected dividend yield	Nil

The expected volatility was determined by using the historical volatility of the Company's share price over the last ten years of share option granted. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate.

The fair value of equity-settled share-based payment expenses in respect of the Scheme of HK$54,022,000 was recognised in profit or loss for the year ended 30 June 2018.

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28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(c) The number and weighted average exercise prices of share options are as follows

	2019		2018	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**272,660,000**	**0.426**	7,960,000	0.172
Granted during the year	**–**	**–**	268,500,000	0.430
Exercised during the year	**–**	**–**	(3,800,000)	0.179
Lapsed during the year	**(26,850,000)**	**0.430**	–	–
Outstanding at the end of the year	**245,810,000**	**0.426**	272,660,000	0.426
Exercisable at the end of the year	**245,810,000**	**0.426**	272,660,000	0.426

The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 8.49 years (2018: 9.49 years) and the exercise prices range from HK$0.166 to HK$0.430 (2018: HK$0.166 to HK$0.430).

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For the year ended 30 June 2019

29. OPERATING LEASE COMMITMENTS

The Group as lessee

	2019 HK$'000	2018 HK$'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**18,940**	16,956

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**9,174**	19,575
In the second to fifth years inclusive	**–**	9,594
	9,174	29,169

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for a term ranging from 1 year (2018: 1 to 2 years) with fixed rentals. Most of the operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

30. RELATED PARTY TRANSACTIONS

(a) The remuneration of key management during the year was as follows:

	2019 HK$'000	2018 HK$'000
Short-term benefits	**3,972**	3,972
Retirement benefit scheme contributions	**36**	44
	4,008	4,016

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

30. RELATED PARTY TRANSACTIONS *(Continued)*

(b) As at 30 June 2019, the Group had the following balance with related party:

	2019 **HK$'000**	2018 HK$'000
Amount due to a substantial shareholder *(Note)*	**239,497**	264,537

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

31. DISPOSALS OF SUBSIDIARIES

(a) Disposal of Worthmore Ventures Limited ("Worthmore")

On 31 May 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its former subsidiaries, Worthmore, Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.) (collectively referred to as the "Disposal Group") to an independent third party (the "Worthmore Purchaser"). The intended principal activity of the Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the "Longwu Shopping Mall"), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the Disposal Group since the lease signed in July 2017. However, during the year ended 30 June 2018, the real estate developer of the Longwu Shopping Mall decided to transfer its title and interests in the Longwu Shopping Mall to the Worthmore Purchaser. As a result of the negotiations among the real estate developer, the Worthmore Purchaser and the Group, it is agreed that the Worthmore Purchaser acquired the entire issued share capital of Worthmore at a consideration of US$1.00 (equivalent to approximately HK$7.80). The consideration was determined after arm's length negotiations with reference to (i) the net liabilities value of the Disposal Group of approximately HK$1,697,000 as at 31 May 2018; and (ii) the Worthmore Purchaser agreed to settle the outstanding liabilities owed by the Disposal Group to the Group in the aggregate amount of approximately HK$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

31. DISPOSALS OF SUBSIDIARIES *(Continued)*

(a) Disposal of Worthmore Ventures Limited ("Worthmore") *(Continued)*

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	7
Trade and other receivables	58
Bank balances and cash	2,303
Trade and other payables	(4,065)
	(1,697)
Gain on disposal of subsidiaries:	
Total consideration	–
Less:	
Net liabilities disposed of	(1,697)
Gain on disposal	1,697
Total consideration satisfied by:	
Cash consideration received	–
Net cash outflow arising on disposal:	
Cash consideration received	–
Bank balances and cash disposed of	(2,303)
Net cash outflow	(2,303)

(b) Disposal of Zhengzhou Jiacong Property Services Company Limited ("Zhengzhou Jiacong")

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong), to an independent third party (the "Jiacong Purchaser"). The principal activity of Zhengzhou Jiacong was the holding of 164 shops in a giant theme shopping mall (the "Jiacong's Shops") situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Zhengzhou Jiacong to realise the Group's investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Zhengzhou Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK$241,180,000). The consideration was determined after arm's length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong's Shops owned by Zhengzhou Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

31. DISPOSALS OF SUBSIDIARIES *(Continued)*

(b) Disposal of Zhengzhou Jiacong Property Services Company Limited ("Zhengzhou Jiacong") *(Continued)*

	HK$'000
Investment properties	236,364
Goodwill	28,785
Trade and other receivables	1,551
Bank balances and cash	42
Trade and other payables	(938)
Tax payables	(157)
Deferred tax liabilities	(28,867)
	236,780
Gain on disposal of a subsidiary:	
Total consideration	241,180
Less:	
Net assets disposed of	(236,780)
Gain on disposal	4,400
Total consideration satisfied by:	
Cash consideration received	11,363
Cash consideration receivable (included in trade and other receivables as disclosed in note 18)	229,817
	241,180
Net cash inflow arising on disposal:	
Cash consideration received	11,363
Bank balances and cash disposed of	(42)
Net cash inflow	11,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Bonds HK$'000	**Amount due to a substantial shareholder** HK$'000	**Interest-bearing borrowings** HK$'000	**Total** HK$'000
At 1 July 2017	25,191	293,852	652,874	971,917
Changes from financing cash flows				
Repayment	–	(39,810)	(72,619)	(112,429)
Interest paid	–	–	(30,620)	(30,620)
Total changes from financing cash flows	–	(39,810)	(103,239)	(143,049)
Effect of changes in foreign exchange rates	–	10,495	23,316	33,811
Other changes				
Interest payable	(2,027)	–	–	(2,027)
Interest expenses	2,073	–	30,620	32,693
At 30 June 2018 and 1 July 2018	25,237	264,537	603,571	893,345
Changes from financing cash flows				
Repayment	**–**	**(13,375)**	**(82,759)**	**(96,134)**
Proceeds from issue of bonds	**10,000**	**–**	**–**	**10,000**
Interest paid	**(2,726)**	**–**	**(26,640)**	**(29,366)**
Total changes from financing cash flows	**7,274**	**(13,375)**	**(109,399)**	**(115,500)**
Effect of changes in foreign exchange rates	**–**	**(11,665)**	**(26,494)**	**(38,159)**
Other changes				
Interest expenses	**2,776**	**–**	**26,640**	**29,416**
At 30 June 2019	**35,287**	**239,497**	**494,318**	**769,102**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

33. FINANCIAL INFORMATION OF THE COMPANY

	NOTES	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**29**	21
Investments in subsidiaries	*34*	**172,770**	172,770
		172,799	172,791
CURRENT ASSETS			
Trade and other receivables		**339**	339
Amount due from subsidiaries	*34*	**808,952**	808,917
Bank balances and cash		**1,120**	834
		810,411	810,090
CURRENT LIABILITIES			
Trade and other payables		**7,164**	5,440
Amount due to a subsidiary		**4,655**	2,027
		11,819	7,467
NET CURRENT ASSETS		**798,592**	802,623
TOTAL ASSETS LESS CURRENT LIABILITIES		**971,391**	975,414
CAPITAL AND RESERVES			
Share capital	*26*	**26,888**	26,888
Share premium and reserves		**909,216**	923,289
Equity attributable to owners of the Company *(Note)*		**936,104**	950,177
NON-CURRENT LIABILITY			
Bonds	*24*	**35,287**	25,237
		971,391	975,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

33. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Note: Details of movements of the Company's share capital, share premium and reserves are as follows:

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2017	26,850	262,943	172,750	15,469	575	483,916	962,503
Other comprehensive loss for the year							
Loss for the year	–	–	–	–	–	(67,028)	(67,028)
Total comprehensive loss for the year	–	–	–	–	–	(67,028)	(67,028)
Issue of shares under employee share option plan	38	907	–	–	(265)	–	680
Recognition of equity-settled share-based payment expenses	–	–	–	–	54,022	–	54,022
At 30 June 2018	26,888	263,850	172,750	15,469	54,332	416,888	950,177
Other comprehensive loss for the year							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(14,073)**	**(14,073)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(14,073)**	**(14,073)**
Lapse of shares under employee share option plan	**–**	**–**	**–**	**–**	**(5,402)**	**5,402**	**–**
At 30 June 2019	**26,888**	**263,850**	**172,750**	**15,469**	**48,930**	**408,217**	**936,104**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 30 June 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2019 %	2018 %	**2019 %**	2018 %	
Big Luck International (HK) Limited	Hong Kong	HK$1	**–**	–	**100**	100	Investment holding
Bloom Noble Limited	Hong Kong	HK$1	**–**	–	**100**	100	Investment holding
Max High International Limited	BVI	US$30,000 Ordinary shares	**–**	–	**100**	100	Investment holding
Right Lane International Limited	BVI	US$30,000 Ordinary shares	**100**	100	**–**	–	Investment holding
Zhengzhou Changdun Assets Management Co., Ltd. ("Zhengzhou Changdun")*	PRC	HK$10,000,000	**–**	–	**100**	100	Investment holding
Zhengzhou Jiachao**	PRC	RMB20,000,000	**–**	–	**75**	75	Property operating
Zhengzhou Jiacong**	PRC	RMB20,000,000	**–**	–	**–**	100	Property operating

* *Zhengzhou Changdun is established as a wholly foreign-owned enterprise under the relevant PRC laws and regulations.*

** *Zhengzhou Jiachao and Zhengzhou Jiacong are established as wholly domestic-owned enterprises under the relevant PRC laws and regulations.*

None of the subsidiaries had issued any debt securities at the end of the year.

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Revenue	373,849	164,160	185,422	199,219	**211,818**
Profit/(loss) for the year	(4,654)	500,487	126,563	112,195	**76,439**

ASSETS AND LIABILITIES

	As at 30 June				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	3,172,391	3,177,067	3,121,631	3,316,776	**3,156,555**
Total liabilities	(1,776,973)	(1,614,472)	(1,481,020)	(1,452,261)	**(1,299,929)**
Equity attributable to owners of the Company	1,395,418	1,562,595	1,640,611	1,864,515	**1,856,626**

SCHEDULE OF INVESTMENT PROPERTIES

Particulars of investment properties as at 30 June 2019

Address	Existing use	Lease term
Basement 1, Level 1-4, Zones A & B No. 36 Mian Fang West Road Zhongyuan District, Zhengzhou City Henan Province The People's Republic of China	Shopping mall	Medium *(Note)*

Note:

The term for which the lease was granted remaining unexpired as at 30 June 2019 is less than 50 years but not less than 10 years.