eSun Holdings Limited

豐德麗控股有限公司

(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)

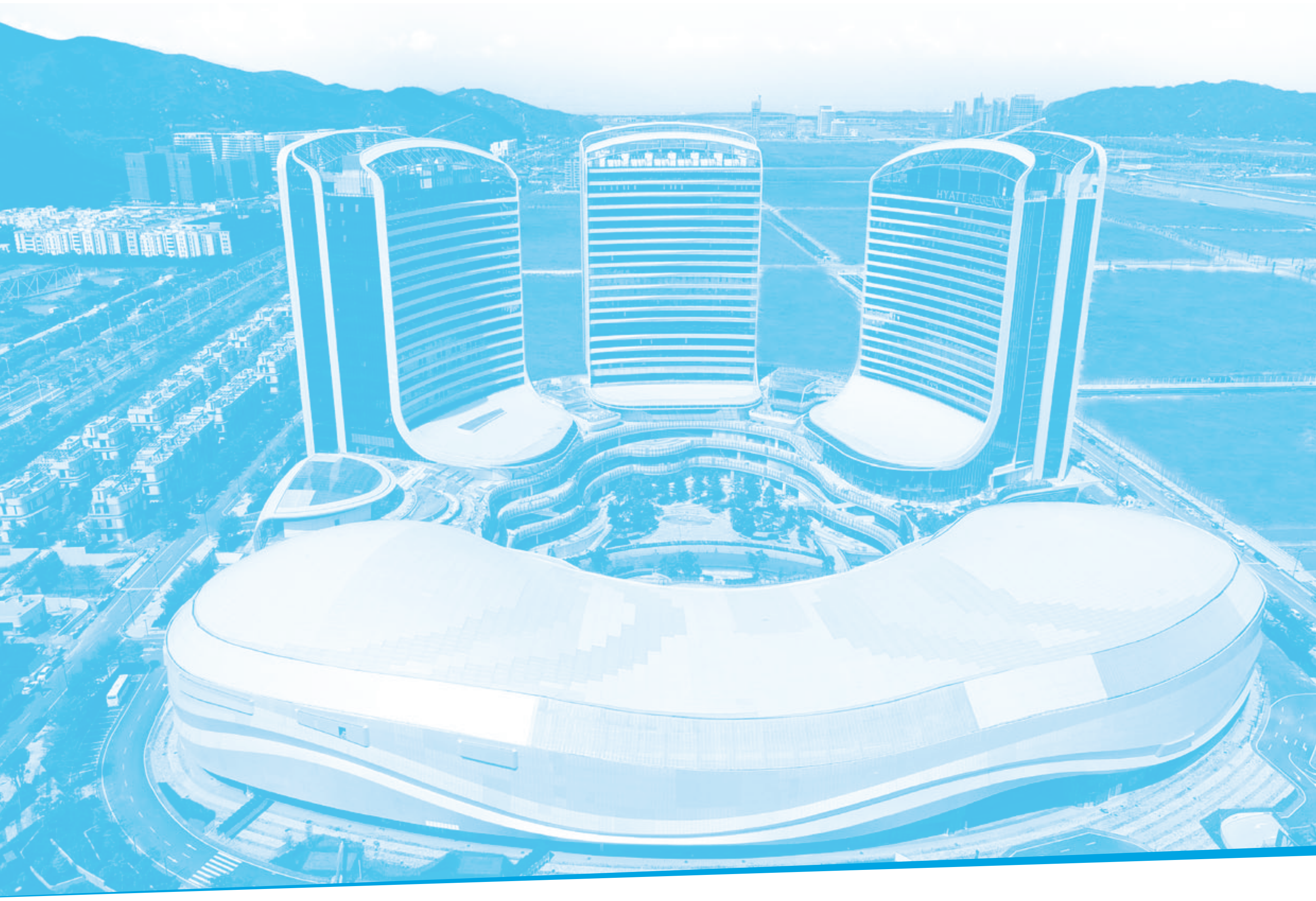
Stock Code 股份代號: 571

ANNUAL REPORT 年度報告

Year ended 31 July 2019
二零一九年七月三十一日止

Transforming challenges into **opportunities** in pursuit of **sustainable development**

轉危為**機**　邁向**可持續發展**



Cover photo:
Novotown Phase I – A project of the Company's subsidiary Lai Fung Holdings Limited located in Hengqin, China

封面圖片：
本公司附屬公司麗豐控股有限公司位於中國橫琴之項目 – 創新方第一期

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CORPORATE INFORMATION

PLACE OF INCORPORATION

Bermuda

BOARD OF DIRECTORS

Executive Directors

Lui Siu Tsuen, Richard *(Chief Executive Officer)*
Chew Fook Aun
Lam Hau Yin, Lester
Yip Chai Tuck

Non-executive Director

U Po Chu

Independent Non-executive Directors

Low Chee Keong *(Chairman)*
Lo Kwok Kwei, David
Ng Lai Man, Carmen
Alfred Donald Yap

AUDIT COMMITTEE

Ng Lai Man, Carmen *(Chairwoman)*
Low Chee Keong
Alfred Donald Yap

REMUNERATION COMMITTEE

Low Chee Keong *(Chairman)*
Chew Fook Aun
Lui Siu Tsuen, Richard
Ng Lai Man, Carmen
Alfred Donald Yap

AUTHORISED REPRESENTATIVES

Chew Fook Aun
Lui Siu Tsuen, Richard

COMPANY SECRETARY

Wong Lai Chun

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

11th Floor, Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong

Tel: (852) 2741 0391
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SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China Limited
The Bank of East Asia, Limited
China CITIC Bank Corporation Limited
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China Limited
Oversea-Chinese Banking Corporation Limited
Shanghai Pudong Development Bank Co., Ltd.
United Overseas Bank Limited

LISTING INFORMATION

Shares

The issued shares of the Company are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code/Board Lot

571/2,000 shares

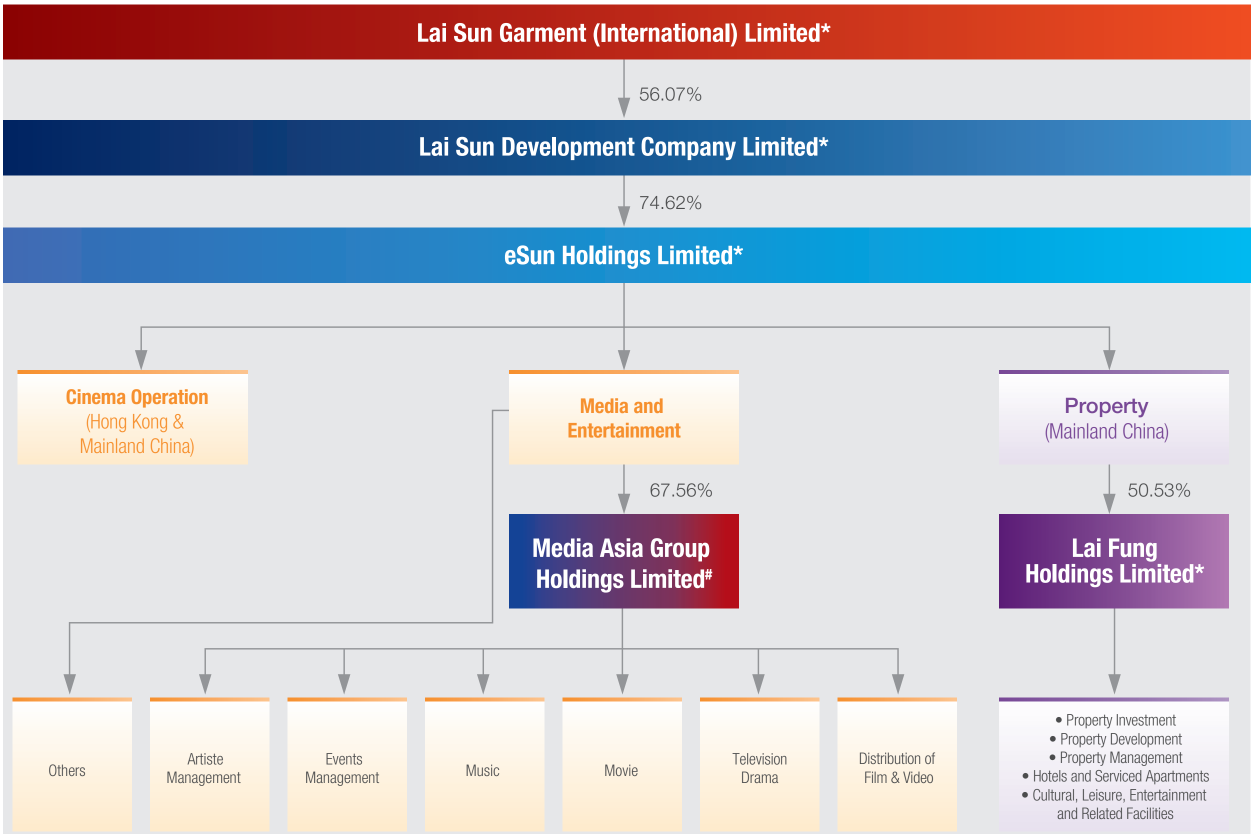
WEBSITE

www.esun.com

INVESTOR RELATIONS

Tel: (852) 2853 6116
Fax: (852) 2853 6651
E-mail: ir@esun.com

CORPORATE PROFILE



* *Listed on the Main Board of The Stock Exchange of Hong Kong Limited*
\# *Listed on GEM of The Stock Exchange of Hong Kong Limited*

Corporate Structure as at 22 October 2019

Note: *The above chart excludes the 0.005% interest held by Lai Sun Development Company Limited in Lai Fung Holdings Limited as equity investment.*

eSun Holdings Limited ("**Company**") is a member of the Lai Sun Group which was established in Hong Kong in 1947. The Company acted as an investment holding company and the principal activities of its subsidiaries include the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programmes, films and video format products, cinema operation, property development for sale and property investment as well as the development and operation of and investment in cultural, leisure, entertainment and related facilities.

Since 9 June 2011, Media Asia Group Holdings Limited ("**MAGHL**", formerly known as "Rojam Entertainment Holdings Limited") has become a subsidiary of the Company, the issued shares of which are traded and listed on GEM of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") (Stock Code: 8075). The Company currently holds about 67.56% of the issued shares in MAGHL and the principal activities of MAGHL and its subsidiaries include film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programmes; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

Lai Fung Holdings Limited ("**Lai Fung**") currently is a 50.53%-owned subsidiary of the Company, its issued shares are traded and listed on the Main Board of the Stock Exchange (Stock Code: 1125). The principal activities of Lai Fung and its subsidiaries consist of property development for sale and property investment, and development and operation of and investment in cultural, leisure, entertainment and related facilities in Mainland China.

Since November 2018, Intercontinental Group Holdings Limited ("**IGHL**", formerly known as "Kadokawa Intercontinental Group Holdings Limited") has become a 95%-owned subsidiary of the Company. IGHL is one of the leading film and video distribution companies in Hong Kong, releasing around 30 films every year and distributing a variety of video products. IGHL is also one of the leading multiplex cinema operators in Hong Kong, operating a total of 13 cinemas in Hong Kong and Mainland China as at 22 October 2019.

CHAIRMAN'S STATEMENT

Continuously explore strategic alliances and investment opportunities to enrich the Group's portfolio and broaden its income stream

Low Chee Keong
Chairman

I am pleased to present the audited consolidated results of eSun Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") for the year ended 31 July 2019.

OVERVIEW OF ANNUAL RESULTS

For the year ended 31 July 2019, the Group recorded a turnover of HK$2,903.4 million, representing an increase of approximately 32.9% from that of HK$2,183.9 million last year. The increase is primarily due to higher turnover from sale of properties of Lai Fung Holdings Limited ("**Lai Fung**", a non-wholly-owned subsidiary of the Company) and its subsidiaries (collectively, "**Lai Fung Group**") for the year ended 31 July 2019 as compared to last year. The gross profit increased by approximately 35.7% to HK$1,374.9 million (2018: HK$1,013.4 million).

For the year ended 31 July 2019, net loss attributable to owners of the Company was approximately HK$77.6 million (2018: net profit of HK$263.8 million). Net loss per share attributable to owners of the Company was HK$0.052 (2018: net profit of HK$0.177 per share). The change from net profit attributable to owners of the Company last year to net loss for the year under review is primarily due to (i) a significant decrease in fair value gain arising from the revaluation of the Group's investment properties and (ii) a significant decrease in the profit contribution from the property sales of Guangzhou Dolce Vita, the joint venture project with CapitaLand China Holdings Pte. Ltd. as compared to last year, which is recognised as a component of "Share of profits and losses of joint ventures" in the consolidated income statement of the Group.

Net loss attributable to owners of the Company for the year ended 31 July 2019 excluding the effect of property revaluations was approximately HK$192.5 million (2018: net loss of HK$108.2 million). Net loss per share attributable to owners of the Company excluding the effect of property revaluations was HK$0.129 per share (2018: net loss of HK$0.073 per share).

Profit/(loss) attributable to owners of the Company	For the year ended 31 July **2019** **HK$'million**	2018 HK$'million
Reported	**(77.6)**	263.8
Adjustments in respect of investment properties		
Revaluation of properties	**(153.5)**	(496.1)
Deferred tax on investment properties	**38.4**	124.0
Non-controlling interests' share of revaluation movements less deferred tax	**0.2**	0.1
Net loss after tax and tax indemnity excluding revaluation gains of investment properties	**(192.5)**	(108.2)

Equity attributable to owners of the Company as at 31 July 2019 amounted to HK$9,098.6 million (2018: HK$9,259.5 million). Net asset value per share attributable to owners of the Company decreased by 1.7% to HK$6.099 per share as at 31 July 2019 from HK$6.207 per share as at 31 July 2018.

FINAL DIVIDEND

The board of directors of the Company ("**Board**") does not recommend the payment of a dividend for the year ended 31 July 2019 (2018: Nil).

BUSINESS REVIEW AND OUTLOOK

Media and Entertainment/Film Production and Distribution/Cinema Operation

The Group continues to enhance and expand its existing media and entertainment businesses in Hong Kong and Mainland China, optimising income derived from its film, TV, live entertainment, artiste management, music and cinema operation. Over the years, the entertainment industry has been generally considered to be recession resistant because it provides people with the need for distractions. Nevertheless, on the back of the growing middle class and rising per capita income, we expect the demand for entertainment will continue to be sustained. Having been continuously investing in the sector solidifying its foundation and presence in the industry, the Group is well positioned to capitalise on this trend.

- Film – continued drive to increase original production of films which appeal to Chinese language audiences with the current production pipeline including "*I'm Living It*", a feature film produced by Cheang Pou Soi with Aaron Kwok and Miriam Yeung, "*Knockout*", an action film by director Roy Chow featuring Han Geng, "*The Calling of a Bus Driver*", a romance comedy film with Ivana Wong and director Patrick Kong, and "*Septet: the Story of Hong Kong*", an omnibus film produced by seven Hong Kong film masters including Johnnie To, Tsui Hark, Ann Hui, Patrick Tam, Sammo Hung, Yuen Woo-Ping and the memorable Ringo Lam.

- TV – expanded activities in production and investments in quality TV drama series in line with the continued strong demand for good programmes from TV stations and online video websites in Mainland China. A 52 episode romance drama series "*New Horizon*", starring Zheng Kai and Chen Chiao-en, is in the post-production stage and projects under development include a 20 episode modern-day drama series namely "*Who Sell Bricks in Hong Kong*" tailor-made for ViuTV, featuring Ng Siu Hin, Fish Liew, Wu Tze Tung and Patrick Tam. The Group is in discussion with various Chinese and overseas portals and video web sites for new project development.

- Live Entertainment – successfully produced and promoted a number of concerts in Hong Kong and Mainland China performed by prominent local, Asian and international artistes. The recent "*FOLLOWMi Sammi Cheng World Tour – Hong Kong 2019*", "*EXO Planet#5 Tour 2019 Hong Kong*" and "*Along with Ekin Live Concert 2019*" have earned good reputation and public recognition. The Group will continue to work with prominent local and Asian artistes for concert promotion. Upcoming events include concerts of Tsai Chin, Yoga Lin and Leon Lai.

- Music – as international music labels are coming to a mutually acceptable licensing model with major Chinese music portals, the long awaited pay model for digital music is taking shape. The exclusive distribution licence of our music products with Tencent Music Entertainment (Shenzhen) Co., Ltd. and Warner Music continue to provide stable income streams to the Group.

- Artiste Management – actively looking for promising talent in Greater China and business collaborations with Asian artistes with an aim to build up an artiste roster with breadth and depth. The Group is a strong believer of talent management and is of the view that such a roster will be an instrumental part of its media and entertainment businesses.

- Cinema – acquisition of an additional 10% equity interest in Intercontinental Group Holdings Limited ("**IGHL**") in November 2018 facilitated better implementation of the operating strategies of the Company into IGHL and bolstered the Group's further development in sale and distribution of films and cinema business in Hong Kong and Mainland China. Officially commenced operations in January 2019, the MCL Cheung Sha Wan Cinema is the first MCL cinema in West Kowloon district in Hong Kong. Renovated with a touch of industrial style, the 4-house cinema is equipped with 418 seats in a stadium seating setting, giving the audience a comfortable sightline and all cinema houses are equipped with 4K projection system, Dolby 7.1 surround sound system and Bowers & Wilkins Hi-Fi grade speakers to provide a great cinematic viewing experience for the audience. The Group has also secured one cinema project in Hong Kong, which is expected to commence business in 2022. We will closely monitor the market conditions in Hong Kong and Mainland China and will continue to evaluate opportunities to further expand our footprint.

Targeting the enormous yet growing China market, the Group endeavors to strengthen its integrated media platform with an aim to provide valuable and competitive products and to enhance its market positioning. The Group will continue to explore strategic alliances as well as investment opportunities to enrich its portfolio and broaden its income stream.

Architect's impression of Shanghai Northgate Plaza after redevelopment

Architect's impression of Zhongshan Palm Spring Phases III and IV

Architect's impression of Guangzhou Haizhu Plaza

Shanghai Wuli Bridge Project

Mainland China Property Market

Global economy remains sluggish in the midst of, amongst other factors, the ongoing trade war between the United States and China, uncertainty around Brexit, rising geopolitical tensions, as well as a series of anti-government protests in Hong Kong which started in early June 2019. Such events, and the development of them over the course of the year under review, coupled with softening inflation, have led to the growing caution surrounding capital markets. While the implications of some of these events are relatively trivial, certain events could have more profound and lasting repercussions for the business outlook. We remain cautiously optimistic about the future prospects of the cities in which the Group has exposure in, especially the Greater Bay Area in southern China, and continue to regard Hong Kong, where our headquarters is situated, as one of the major beneficiary cities. Stability is instrumental to the restoration of business confidence, and under the current leadership of the Chinese government, we remain certain that this will be sustained and enhanced.

The regional focus and rental-led strategy of Lai Fung continued to demonstrate resilience. With a total rentable gross floor area ("**GFA**") of approximately 3.4 million square feet, primarily in Shanghai and Guangzhou, Lai Fung Group's rental portfolio delivered steady performance in rental income at close to full occupancies for the key assets.

Through developing the existing projects on hand in Shanghai, Guangzhou, Zhongshan and Hengqin, Lai Fung Group estimates that its rental portfolio will increase from approximately 3.4 million square feet to approximately 9.6 million square feet over the next few years. Construction work of the combined redevelopment of Shanghai Northgate Plaza I, Northgate Plaza II and Hui Gong Building includes an office tower, a shopping mall and an underground car-parking structure, and is expected to complete in the second quarter of 2022 and will add a total GFA of approximately 693,600 square feet, excluding car-parking spaces, to the rental portfolio of Lai Fung Group. Construction work of Guangzhou Haizhu Plaza commenced in the first half of 2019 and is expected to complete in the first half of 2023, providing a total rental GFA of approximately 580,800 square feet.

Grand opening ceremony of Lionsgate Entertainment World®

Grand opening ceremony of National Geographic Ultimate Explorer Hengqin

Hengqin Novotown Phase I Cultural Studio

The two themed indoor experience centres in Phase I ("**Novotown Phase I**") of the Novotown project in Hengqin ("**Novotown**"), namely "Lionsgate Entertainment World®" and "National Geographic Ultimate Explorer Hengqin", commenced operations on 31 July 2019 and 9 September 2019, respectively. China Cinda (HK) Asset Management Co., Limited's investment of 30% equity interest in the two operating companies of the "Lionsgate Entertainment World®" and the "National Geographic Ultimate Explorer Hengqin" on 31 December 2018 enhanced the capital structure for the operations of these two indoor experience centres. Taking into account the spaces for "Lionsgate Entertainment World®" and the "National Geographic Ultimate Explorer Hengqin", leases of approximately 68% commercial area of Novotown Phase I have been secured with over 50% retail stores targeted to open by the end of 2019. The remaining portions of Novotown Phase I, including a hotel managed by Hyatt group, are nearing completion and is expected to be launched by phases by the end of 2019.

Lai Fung Group succeeded in bidding for the land use rights of the land offered for sale by The Land and Resources Bureau of Zhuhai ("**Zhuhai Land Bureau**") through the listing-for-sale process in December 2018 and the land is situated adjacent to Novotown Phase I with a total site area of approximately 143,800 square meters and a maximum plot ratio of 2 times and has been designated for the development of Phase II of the Novotown project ("**Novotown Phase II**"). Apart from Real Madrid Club de Fútbol ("**Real Madrid Club**"), Harrow International (China) Management Services Limited and ILA Holdings Limited that have been secured as key partners for Novotown Phase II, Lai Fung Group entered into a license agreement on 27 December 2018 with Ducati Motor Holding S.p.A ("**Ducati**") in relation to the development and operation of a motorcycle themed experience centre ("**Ducati Experience Centre**") in Novotown Phase II. The Ducati Experience Centre is expected to cover an area of no less than 4,500 square meters and will offer experiential attractions including immersive racing experiences, exclusive Ducati exhibits and retail concessions. Real Madrid World, Innovation Leadership Academy Hengqin ("**ILA Hengqin**") and Ducati Experience Centre are expected to be the key elements in Novotown Phase II and details of the development plan will be formulated upon finalisation of the master layout plan with the Chinese Government. Lai Fung Group is in the process of finalising the master layout plan for Novotown Phase II with the Chinese Government.

The remaining residential units in Zhongshan Palm Spring and the cultural studios of Novotown Phase I, as well as residential units in Shanghai Wuli Bridge project completed in August 2019 are expected to contribute to the income of Lai Fung Group in the coming financial years. Particularly, in light of the prospects and the growing demand for residential units in Zhongshan, Lai Fung Group decided, in May 2019, to launch the sale of the serviced apartment units at STARR Resort Residence Zhongshan. Accordingly, STARR Resort Residence Zhongshan, comprising two 16-storey blocks in the Palm Lifestyle complex has been closed and the total GFA of approximately 98,600 square feet have been re-classified from "Property, plant and equipment" to "Assets classified as held for sale" in the consolidated statement of financial position of the Group as at 31 July 2019. The sale of these serviced apartment units will be recorded as disposal of assets classified as held for sale and the sales proceeds net of cost will be included in "Other operating gains/expenses, net" in the consolidated income statement of the Group. Lai Fung Group will continue its prudent and flexible approach and replenish its landbank as and when opportunities arise.

The disposal ("**Novotown Phase I Sale**") of the Group's 20% equity interest in Novotown Phase I project to Lai Sun Development Company Limited ("**LSD**", together with its subsidiaries, "**LSD Group**") which has been approved by shareholders of the Company ("**Shareholders**") and completed in September 2019 enabled the Group to crystalise the value in its investment in Novotown Phase I and recycle the capital to reduce its borrowings so as to improve its working capital position for future opportunities that may arise.

Other Business Updates

From May to August 2018, the Company went through a voluntary general cash offer ("**eSun Offer**") made by Transtrend Holdings Limited, a wholly-owned subsidiary of LSD in May 2018 to acquire all of the issued shares of the Company that were not already owned by LSD Group. Upon closing of the eSun Offer on 22 August 2018, the Company became a subsidiary of LSD and the Group's financial results would be consolidated into that of LSD. Immediately after the restoration of public float of the Company on 11 February 2019 and as at the date of this annual report, the Company is 74.62% owned by LSD. The mandatory general offer to Lai Fung triggered by the eSun Offer closed on 13 September 2018. As at the date of this annual report, Lai Fung is 50.53% owned by the Company.

The supplemental deed executed by Lai Fung on 8 March 2019 aims to contribute to a more pragmatic and flexible approach for investment decisions to be made by the Lai Sun Group and has been approved by independent shareholders of each of Lai Fung, the Company, LSD and Lai Sun Garment (International) Limited on 30 April 2019.

Subsequent to the year end, on 16 September 2019, the Company was made aware that Mr. Yu Cheuk Yi and Ms. Yu Siu Yuk ("**YUs**") had acquired additional shares of the Company in the open market such that YUs became substantial Shareholders as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), which in turn had caused a shortfall in the public float of the Company. The public float was eventually restored on 25 September 2019 upon completion of YUs' disposal of 1,000,000 shares of the Company to an independent third party, and the trading in the shares of the Company on the Stock Exchange was resumed with effect from 1:00 p.m. on 26 September 2019.

As at 31 July 2019, the Group's consolidated cash position of HK$3,771.9 million (HK$339.7 million excluding Lai Fung Group and Media Asia Group Holdings Limited ("**MAGHL**", a non-wholly-owned subsidiary of the Company) together with its subsidiaries ("**MAGHL Group**")) (2018: HK$3,209.8 million (HK$341.9 million excluding Lai Fung Group and MAGHL Group)) with a reasonable net debt to equity ratio of approximately 69.2% as at 31 July 2019 (2018: 53.9%) provides the Group with full confidence and the means to review opportunities more actively. Excluding the net debt of Lai Fung Group and MAGHL Group, the gearing ratio is approximately 7.9%. The Group will continue its prudent and flexible approach in managing its financial position.

APPRECIATION

Looking back on this financial year, I would like to thank my Board colleagues, the senior management team, our partners and everyone who worked with us during the year for their loyalty, support and outstanding teamwork.

I would like to thank Mr. Andrew Y. Yan who left the Board during the year for his valuable contributions to the Company during his tenure.

I firmly believe that through the concerted efforts of our staff and with the support of all our stakeholders, we will continue to grow the Group going forward in a prudent and sustainable manner.

Low Chee Keong
Chairman
Hong Kong
22 October 2019

FINANCIAL SUMMARY AND HIGHLIGHTS

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements of the Group, is set out below:

Results

	Year ended 31 July				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
TURNOVER	**2,903,362**	2,183,863	2,677,388	3,369,275	3,329,495
PROFIT BEFORE TAX AND TAX INDEMNITY	**331,072**	915,651	1,106,540	718,532	1,182,410
Tax and tax indemnity	**(312,967)**	(242,234)	(79,326)	(405,526)	(560,534)
PROFIT FOR THE YEAR	**18,105**	673,417	1,027,214	313,006	621,876
Attributable to:					
Owners of the Company	**(77,645)**	263,840	514,233	80,825	258,231
Non-controlling interests	**95,750**	409,577	512,981	232,181	363,645
	18,105	673,417	1,027,214	313,006	621,876

Assets, Liabilities and Non-Controlling Interests

	As at 31 July				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Property, plant and equipment	**4,931,149**	3,790,965	3,041,562	2,768,546	2,580,696
Properties under development (classified as non-current assets)	**713,590**	410,157	1,346,220	1,188,387	1,631,376
Investment properties	**20,424,800**	18,601,100	16,903,419	15,065,759	14,914,881
Film rights	**24,608**	11,205	20,960	23,682	25,197
Film products	**75,022**	80,217	125,921	123,768	81,947
Music catalogs	**15,629**	9,657	11,438	14,918	14,832
Goodwill	**82,440**	82,440	82,440	123,440	123,440
Other intangible assets	**–**	586	16,557	28,605	–
Investments in joint ventures	**22,993**	1,868,316	1,438,287	1,161,752	1,231,634
Investments in associates	**5,804**	16,278	28,587	26,894	28,875
Financial assets at fair value through profit or loss (classified as non-current assets)	**75,815**	–	–	–	–
Available-for-sale investments	**–**	114,361	123,435	138,592	167,092
Long-term deposits, prepayments and other receivables	**96,237**	120,116	124,362	323,905	124,273
Long-term pledged and restricted time deposits	**–**	–	–	–	135,669
Deferred tax assets	**9,108**	4,189	6,050	6,101	5,072
Derivative financial instruments	**20,581**	2,531	–	–	–
Current assets	**8,115,601**	6,937,701	5,973,510	7,407,402	7,811,709
TOTAL ASSETS	**34,613,377**	32,049,819	29,242,748	28,401,751	28,876,693
Current liabilities	**(5,100,557)**	(3,311,059)	(4,968,225)	(3,175,552)	(4,753,177)
Non-current liabilities – Long-term deposits received, bank and other borrowings, derivative financial instruments, loans from a joint venture, loans from a fellow subsidiary, loans from a related company, convertible notes, guaranteed notes and fixed rate senior notes	**(8,735,777)**	(7,774,859)	(3,947,369)	(6,152,509)	(4,176,022)
Deferred tax liabilities	**(3,351,747)**	(3,318,953)	(3,104,284)	(2,808,906)	(2,804,979)
TOTAL LIABILITIES	**(17,188,081)**	(14,404,871)	(12,019,878)	(12,136,967)	(11,734,178)
NON-CONTROLLING INTERESTS	**(8,326,675)**	(8,385,483)	(8,104,670)	(7,665,526)	(7,977,835)
Equity attributable to owners of the Company	**9,098,621**	9,259,465	9,118,200	8,599,258	9,164,680

FINANCIAL SUMMARY AND HIGHLIGHTS

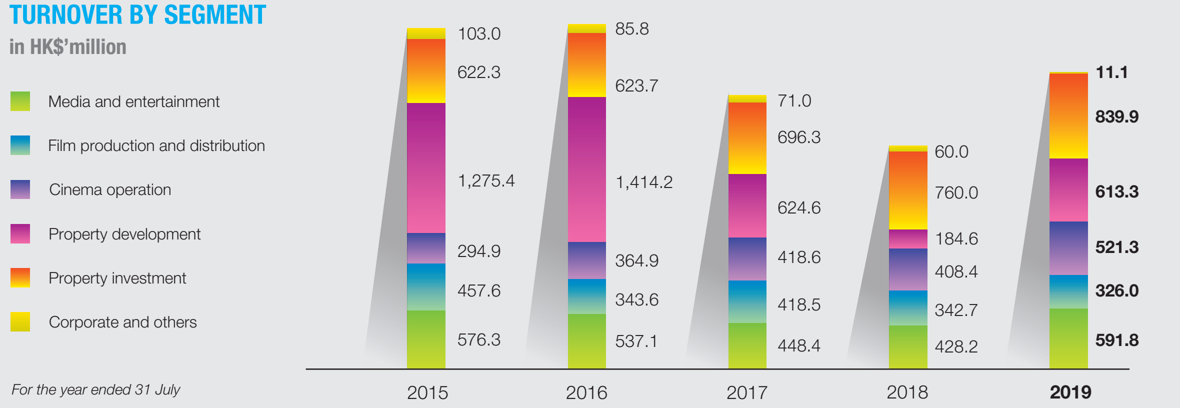
FINANCIAL HIGHLIGHTS

		Year ended 31 July 2019	Year ended 31 July 2018	Approximate percentage change
Turnover	(HK$'M)	**2,903.4**	2,183.9	33%
Gross profit	(HK$'M)	**1,374.9**	1,013.4	36%
Gross profit margin	(%)	**47.4%**	46.4%	
Operating profit	(HK$'M)	**516.3**	767.5	-33%
Operating profit margin	(%)	**17.8%**	35.1%	
Profit/(loss) attributable to owners of the Company	(HK$'M)			
– as reported		**(77.6)**	263.8	-129%
– adjusted *(Note 1)*		**(192.5)**	(108.2)	78%
Net profit margin	(%)			
– as reported		**-2.7%**	12.1%	
– adjusted		**-6.6%**	-5.0%	
Basic earnings/(loss) per share *(Note 2)*	(HK$)			
– as reported		**(0.052)**	0.177	N/A
– adjusted		**(0.129)**	(0.073)	N/A
Net assets attributable to owners of the Company	(HK$'M)	**9,098.6**	9,259.5	-2%
Net borrowings	(HK$'M)	**6,293.4**	4,989.2	26%
Net asset value per share *(Note 3)*	(HK$)	**6.099**	6.207	-2%
Share price as at 31 July	(HK$)	**1.08**	1.27	-15%
Price earnings ratio	(times)			
– as reported		**N/A**	7.2	
– adjusted		**N/A**	N/A	
Market capitalisation as at 31 July	(HK$'M)	**1,611.2**	1,894.7	-15%
Return on shareholders' equity	(%)			
– as reported		**-0.9%**	2.8%	
– adjusted		**-2.1%**	-1.2%	
Gearing - net debt to equity	(%)	**69.2%**	53.9%	
Interest cover *(Note 4)*	(times)			
– as reported		**N/A**	0.61	
– adjusted		**N/A**	N/A	
EBITDA *(Note 5)*/Interest expenses	(times)	**1.1**	1.9	
Current ratio	(times)	**1.6**	2.1	
Discount to net asset value	(%)	**82.3%**	79.5%	

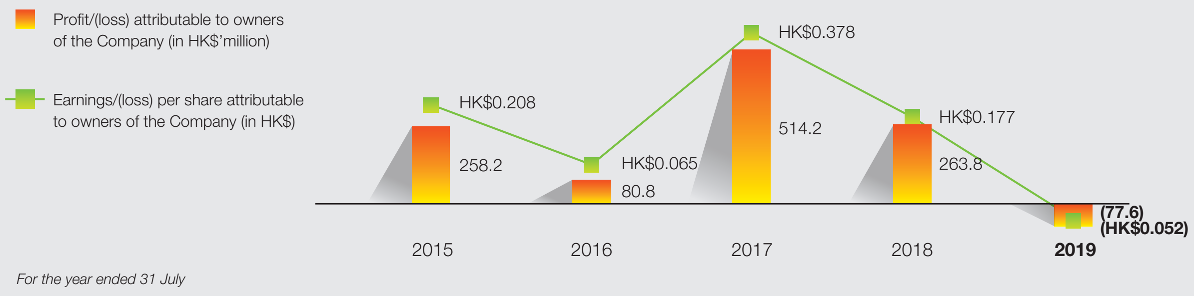
Notes:

1. *Excluding revaluation gains of investment properties*
2. *Calculated based on the profit/(loss) attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year*
3. *Calculated based on the number of ordinary shares in issue as at the end of respective reporting periods*
4. *Calculated as profit attributable to owners of the Company over cash interest expenses*
5. *EBITDA = Profit before tax and tax indemnity — Property revaluation gain/loss + Depreciation + Amortisation + Finance costs*

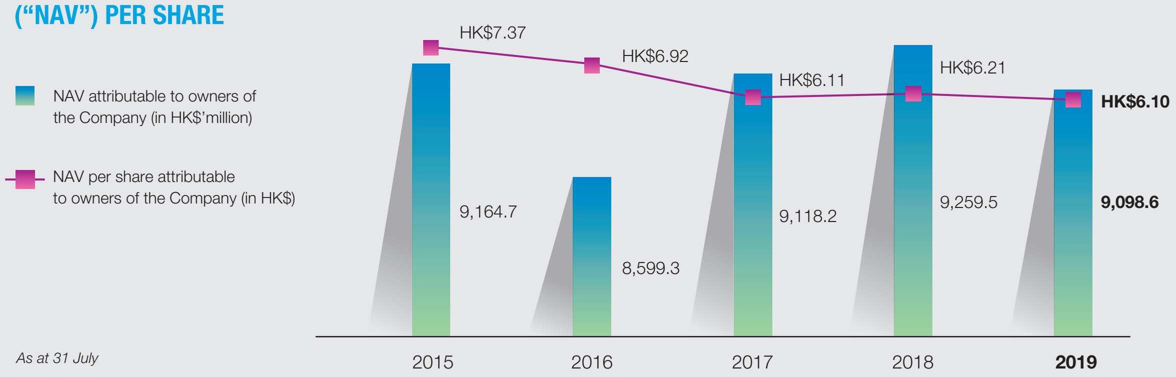
TURNOVER BY SEGMENT



PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY



NET ASSETS & NET ASSET VALUE ("NAV") PER SHARE



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Media and Entertainment

For the year ended 31 July 2019, this segment recorded a turnover of HK$591.8 million (2018: HK$428.2 million) and segment results increased to HK$64.2 million from that of HK$21.8 million last year.

Live Entertainment

The Group remains active on the live entertainment front. During the year under review, the Group organised and invested in 118 (2018: 138) shows by popular local, Asian and internationally renowned artistes, including Andy Lau, Sammi Cheng, Ekin Cheng, Ivana Wong, Grasshopper, JJ Lin, Yoga Lin, EXO, Donghae & Eunhyuk and MayDay.

Music Production, Distribution and Publishing

For the year ended 31 July 2019, the Group released 49 (2018: 53) albums, including titles by Sammi Cheng, Grasshopper, Remus Choy, Andy Leung, Tang Siu Hau and Feanna Wong. The Group is expected to continue to increase its music licensing revenue from the exploitation of the music library through new media distribution.

Artiste Management

The Group has a strong artiste management team and a sizeable number of talents and will continue to expand its profile and in tandem with our growing television drama production and film production business.

Film and TV Programme Production and Distribution

For the year ended 31 July 2019, this segment recorded a turnover of HK$326.0 million (2018: HK$342.7 million) and segment results of a loss of HK$119.6 million (2018: a loss of HK$258.7 million).

During the year under review, the Group released 2 films (2018: 5), namely *Kung Fu Monster* and *Dead Pigs* and distributed 33 (2018: 39) films and 482 (2018: 480) videos with high profile titles including *Green Book*, *Hotel Mumbai*, *John Wick: Chapter 3 – Parabellum, BumbleBee, Captain Marvel* and *Venom*.

Cinema Operation

For the year ended 31 July 2019, this segment recorded a turnover of HK$521.3 million (2018: HK$408.4 million). The Group currently operates 10 cinemas in Hong Kong and 3 cinemas in Mainland China. The cinema operation provides a complementary distribution channel for the Group's film production and distribution businesses. The MCL Cheung Sha Wan Cinema, newly opened in January 2019 is the first MCL cinema in West Kowloon district. With industrial style design, the cinema has 4 houses with more than 400 seats in a stadium seating setting, giving the audience a comfortable sightline and all cinema houses are equipped with 4K projection system, Dolby 7.1 surround sound system and Bowers & Wilkins Hi-Fi grade speakers to provide a great cinematic viewing experience for the audience.

Details on the number of screens and seats of each existing cinema are as follows:

Cinema	Attributable interest to the Group (%)	No. of screens (Note 1)	No. of seats (Note 1)
Mainland China			
Suzhou Grand Cinema City	100	10	1,440
Guangzhou May Flower Cinema City	100	7	606
Zhongshan May Flower Cinema City	100	5	905
Subtotal		**22**	**2,951**
Hong Kong			
Movie Town (including MX4D theatre)	100	7	1,702
Festival Grand Cinema	95	8	1,196
MCL Metro City Cinema (Note 2)	95	6	694
MCL Telford Cinema (including MX4D theatre)	95	6	789
STAR Cinema	95	6	622
Grand Kornhill Cinema (including MX4D theatre)	95	5	706
MCL Cheung Sha Wan Cinema	95	4	418
MCL South Horizons Cinema	95	3	555
MCL Green Code Cinema	95	3	285
Grand Windsor Cinema	95	3	246
Subtotal		**51**	**7,213**
Total		**73**	**10,164**

Notes:

1. *On 100% basis*

2. *With effect from 1 November 2018, rental spaces of one cinema house have been handed back to the landlord.*

Property Portfolio Composition

All major properties of the Group in Mainland China are held through Lai Fung Group, except Novotown Phase I which was 80% owned by Lai Fung Group and 20% owned by the Group as at 31 July 2019. Upon completion of the Novotown Phase I Sale in September 2019, Novotown Phase I is 80% owned by Lai Fung Group and 20% owned by LSD Group. Set out below are the approximate attributable GFA (in '000 square feet) and number of car-parking spaces as at 31 July 2019:

	Commercial/ Retail	Office	Hotel/ Serviced apartments	Residential	Total (excluding car-parking spaces & ancillary facilities)	No. of car-parking spaces
GFA of major properties and number of car-parking spaces of Lai Fung Group attributable to the Group (Note 1)						
Completed Properties Held for Rental (Note 2)	935 (Note 2)	540	–	–	1,475	404
Completed Hotel Properties and Serviced Apartments	–	–	252	–	252	–
Properties under Development (Note 3)	2,027	783	415	1,034	4,259	2,512
Completed Properties Held for Sale	17 (Note 4)	–	–	259 (Note 5)	276	1,054
Subtotal	**2,979**	**1,323**	**667**	**1,293**	**6,262**	**3,970**
GFA of major properties and number of car-parking spaces of the Group excluding Lai Fung Group (Note 6)						
Completed Properties Held for Rental (Note 2)	49	–	–	–	49	–
Properties under Development (Note 3)	146	118	205	–	469	389
Completed Properties Held for Sale	–	–	–	35	35	–
Subtotal	**195**	**118**	**205**	**35**	**553**	**389**
Total	**3,174**	**1,441**	**872**	**1,328**	**6,815**	**4,359**

Notes:

1. *As at 31 July 2019, Lai Fung is a 50.55%-owned subsidiary of the Company.*
2. *Completed and rental generating properties, including the cultural attraction space in Novotown Phase I that has been occupied by "Lionsgate Entertainment World®"*
3. *All properties under construction*
4. *Completed properties held for sale, including 17,035 square feet of commercial space in Zhongshan Palm Spring which is currently for self-use*
5. *Completed properties held for sale, including 49,842 square feet of serviced apartment units of Zhongshan Palm Spring which have been re-classified as "Assets classified as held for sale" as at 31 July 2019*
6. *Upon completion of the Novotown Phase I Sale in September 2019, Novotown Phase I is 80% owned by Lai Fung Group and 20% owned by LSD Group.*

Property Investment

Revenue from Rental Operation

For the year ended 31 July 2019, Lai Fung Group's rental operations recorded a turnover of HK$839.6 million, which include revenue of HK$730.7 million from lease of properties and HK$108.9 million from building management operation. The income from building management operation of approximately HK$114.4 million for the last year was included in "Other revenue" on the face of the consolidated income statement for the year ended 31 July 2018.

Excluding the income from building management operation, the revenue from the leasing of properties for the year under review decreased slightly by 3.9% from HK$760.0 million of last year.

	For the year ended 31 July			For the year ended 31 July			
	2019# **HK$'million**	2018# HK$'million	Approximate change (%)	**2019** **RMB'million**	2018 RMB'million	Approximate change (%)	**Year end occupancy** (%)
Shanghai							
Shanghai Hong Kong Plaza	**450.6**	416.1	8.3	**393.0**	345.8	13.6	Retail: 99.0 Office: 96.3 Serviced Apartments: 89.6
Shanghai May Flower Plaza	**67.6**	75.9	-10.9	**58.9**	63.1	-6.7	Retail: 82.1 Hotel: 77.9
Shanghai Regents Park	**22.1**	25.0	-11.6	**19.3**	20.7	-6.8	100.0
Guangzhou							
Guangzhou May Flower Plaza	**122.9**	109.4	12.3	**107.2**	90.9	17.9	98.9
Guangzhou West Point	**26.7**	19.7	35.5	**23.2**	16.5	40.6	99.9
Guangzhou Lai Fung Tower	**126.8**	105.2	20.5	**110.6**	87.4	26.5	Retail: 100.0 Office: 100.0*
Zhongshan							
Zhongshan Palm Spring	**8.5**	8.7	-2.3	**7.4**	7.2	2.8	Retail: 71.2* Serviced Apartments: N/A**
Others	**14.4**	–	N/A	**12.6**	–	N/A	N/A
Total	**839.6**	760.0	10.5	**732.2**	631.6	15.9	

\# *The exchange rates adopted for the years ended 31 July 2019 and 2018 are 0.8721 and 0.8310, respectively.*

* *Excluding self-use area*

** *STARR Resort Residence Zhongshan has been closed during the year under review and the serviced apartment units have been launched for sale in May 2019.*

Breakdown of turnover by usage of major rental properties of the Group is as follows:

	For the year ended 31 July 2019			For the year ended 31 July 2018		
	Attributable interest to the Group	Turnover HK$'million	Total GFA# square feet	Attributable interest to the Group	Turnover HK$'million	Total GFA# square feet
Shanghai						
Shanghai Hong Kong Plaza	**50.55%**			50.60%		
Retail		**208.7**	**468,434**		181.2	468,434
Office		**116.1**	**362,096**		102.4	362,096
Serviced Apartments (room revenue and F&B)		**119.7**	**355,267**		125.2	355,267
Car-parking Spaces		**6.1**	**N/A**		7.3	N/A
		450.6	**1,185,797**		416.1	1,185,797
Shanghai May Flower Plaza	**50.55%**			50.60%		
Retail		**29.5**	**320,314**		34.3	320,314
Hotel (room revenue and F&B)		**34.3**	**143,846**		37.6	143,846
Car-parking Spaces		**3.8**	**N/A**		4.0	N/A
		67.6	**464,160**		75.9	464,160
Shanghai Regents Park	**48.02%**			48.07%		
Retail		**19.2**	**82,062**		21.0	82,062
Car-parking Spaces		**2.9**	**N/A**		4.0	N/A
		22.1	**82,062**		25.0	82,062
Guangzhou						
Guangzhou May Flower Plaza	**50.55%**			50.60%		
Retail		**106.9**	**357,424**		94.8	357,424
Office		**13.1**	**79,431**		11.6	79,431
Car-parking Spaces		**2.9**	**N/A**		3.0	N/A
		122.9	**436,855**		109.4	436,855
Guangzhou West Point	**50.55%**			50.60%		
Retail		**26.7**	**171,968**		19.7	171,968
Guangzhou Lai Fung Tower	**50.55%**			50.60%		
Retail		**16.4**	**112,292**		12.7	99,054
Office		**104.7**	**625,821**		86.6	606,495
Car-parking Spaces		**5.7**	**N/A**		5.9	N/A
		126.8	**738,113**		105.2	705,549
Zhongshan						
Zhongshan Palm Spring	**50.55%**			50.60%		
Retail*		**4.3**	**147,408**		2.7	147,408
Serviced Apartments** (room revenue)		**4.2**	**98,556**		6.0	98,556
		8.5	**245,964**		8.7	245,964
Others		**14.4**	**N/A**		N/A	N/A
Total		**839.6**	**3,324,919**		760.0	3,292,355

* *Excluding self-use area*

** *STARR Resort Residence Zhongshan has been closed during the year under review and the serviced apartment units have been launched for sale in May 2019.*

\# *On 100% basis*

Review of Major Rental Properties

Shanghai Hong Kong Plaza

Being Lai Fung Group's wholly-owned flagship investment property project in Shanghai, Shanghai Hong Kong Plaza is strategically located in the prime district of the city, directly above the Huangpi South Road Metro Station at Huaihaizhong Road in Huangpu District, which is highly accessible by car and well connected to public transportation networks, as well as walking distance from Shanghai Xintiandi.

Connected by an indoor footbridge, the property comprises a 32-storey office building, a 32-storey serviced apartment (managed by the Ascott Group), a shopping mall and carpark. The property's total GFA is approximately 1,185,800 square feet excluding 350 car-parking spaces, comprising approximately 362,100 square feet for office, approximately 355,300 square feet for serviced apartment, and approximately 468,400 square feet for shopping mall.

Anchor tenants, as of the date of this annual report, include The Apple Store, Tiffany, Genesis Motor, Coach, Tasaki, etc.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Jing'an District in Shanghai. This project is situated near the Zhongshan Road North Metro Station.

Lai Fung Group owns 100% in the retail podium which has approximately 320,300 square feet of GFA including the basement commercial area. The asset is positioned as a community retail facility. The lease of Lotte Mart, the anchor tenant in the retail podium was terminated in July 2018. Subsequently, Lai Fung Group secured a lease with Hema Fresh (盒馬鮮生), which is one of the first supermarkets opened in Mainland China under Alibaba Group's New Retail initiatives, to take up part of that site and is in discussions with several prospective tenants to fill the vacancy.

Shanghai Regents Park

Shanghai Regents Park is a large-scale residential/commercial composite development located in the Zhongshan Park Commercial Area at the Changning District, Shanghai. It is situated within walking distance of the Zhongshan Park Metro Station. Lai Fung Group retains a 95% interest in the commercial portion which has a total GFA of approximately 82,000 square feet (GFA attributable to Lai Fung Group is approximately 77,900 square feet).

Guangzhou May Flower Plaza

Guangzhou May Flower Plaza is a prime property situated at Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian Metro Station in Guangzhou, the interchange station of Guangzhou Subway Lines No. 1 and 2. This 13-storey complex has a total GFA of approximately 436,900 square feet excluding 136 car-parking spaces.

The building comprises of retail spaces, restaurants, office units and car-parking spaces. The property is almost fully leased to tenants comprising well-known corporations, consumer brands and restaurants.

Lai Fung Group owns 100% of this property.

Guangzhou West Point

Guangzhou West Point is located on Zhongshan Qi Road and is within walking distance from the Ximenkou Subway Station. This is a mixed-use property where Lai Fung Group has sold all the residential and office units and retained a commercial podium with GFA of approximately 172,000 square feet. Tenants of the retail podium include renowned restaurants and local retail brands.

Guangzhou Lai Fung Tower

Guangzhou Lai Fung Tower is the office block of Phase V of Guangzhou Eastern Place, which is a multi-phase project located on Dongfeng East Road, Yuexiu District, Guangzhou. This 38-storey office building was completed in June 2016.

Upon completion of the asset swap transaction with Guangzhou Light Industry Real Estate Development Company in August 2017, the total GFA of this property owned by Lai Fung Group increased to approximately 738,100 square feet excluding car-parking spaces and the commercial area and the office building excluding self-use area have been fully leased.

Zhongshan Palm Spring Rainbow Mall

Zhongshan Palm Spring is located in Caihong Planning Area, Western District of Zhongshan. It has a total GFA of approximately 181,100 square feet and excluding self-use area, the occupancy rate as at year end was approximately 71.2%.

Hotel and Serviced Apartments

Ascott Huaihai Road Shanghai

Ascott Huaihai Road in Shanghai Hong Kong Plaza is managed by the Ascott Group and it is one of a premier collection of the Ascott Limited's serviced residences in over 70 cities in Asia Pacific, Europe and the Gulf region. The residence with total GFA of approximately 357,000 square feet and approximately 355,300 square feet attributable to Lai Fung Group has 308 contemporary apartments of various sizes: studios (640 – 750 sq.ft.), one-bedroom apartments (915 – 1,180 sq.ft.), two-bedroom apartments (1,720 sq.ft.), three-bedroom apartments (2,370 sq.ft.) and two luxurious penthouses on the highest two floors (4,520 sq.ft.). An average occupancy rate of 86.0% was achieved during the year under review and the average room tariff was approximately HK$1,189.

STARR Hotel Shanghai

STARR Hotel Shanghai is a 17-storey hotel located in the Mayflower Lifestyle complex in Jing'an District, within walking distance to Lines 1, 3 and 4 of the Shanghai Metro Station with easy access to major motorways. There are 239 fully furnished and equipped hotel units with stylish separate living room, bedroom, fully-equipped kitchenette and luxurious bathroom amenities for short or extended stays to meet the needs of the business travelers from around the world and the total GFA is approximately 143,800 square feet. The GFA attributable to Lai Fung Group is approximately 143,800 square feet. An average occupancy rate of 73.1% was achieved during the year under review and the average room tariff was approximately HK$516.

Property Development

Recognised Sales

For the year ended 31 July 2019, Lai Fung Group's property development operations recorded a turnover of HK$613.3 million (2018: HK$184.6 million) from sale of properties, representing a 232.2% increase in sales revenue over last year. The significant increase was primarily driven by the sales performance of residential units of Zhongshan Palm Spring, cultural studios of Novotown Phase I and car-parking spaces of Shanghai Regents Park during the year under review. Sales of residential units and retail units of Guangzhou Dolce Vita has been completed and the last retail unit sold and recognised during the year under review achieved an average selling price of HK$3,384 per square foot. This is recognised as a component of "Share of profits and losses of joint ventures" in the consolidated income statement.

STARR Resort Residence Zhongshan comprising two 16-storey blocks in the Palm Lifestyle complex has been closed. The serviced apartment units with total GFA of approximately 98,600 square feet have been launched for sale in May 2019 and have been re-classified from “Property, plant and equipment” to “Assets classified as held for sale” in the consolidated statement of financial position of the Group as at 31 July 2019. The sale of these serviced apartment units will be recorded as disposal of assets classified as held for sale and the sales proceeds net of cost will be included in “Other operating gains/expenses, net” in the consolidated income statement of the Group.

Breakdown of turnover for the year ended 31 July 2019 from property sales is as follows:

Recognised basis	No. of units	Approximate GFA	Average selling price#	Turnover*	
		Square feet	HK$/square foot	HK$'million##	RMB'million
Zhongshan Palm Spring					
Residential High-rise Units	129	158,473	1,590	240.2	209.5
Residential House Units	25	52,870	2,739	137.9	120.3
Hengqin Novotown Phase I					
Cultural Studios	6	24,207	5,274	121.6	106.0
Others				0.4	0.3
Subtotal	**160**	**235,550**	**2,227**	**500.1**	**436.1**
Shanghai Regents Park					
Car-parking Spaces	153			100.3	87.5
Guangzhou Eastern Place					
Car-parking Spaces	5			5.4	4.7
Guangzhou West Point					
Car-parking Spaces	4			2.4	2.1
Guangzhou King's Park					
Car-parking Space	1			0.7	0.6
Zhongshan Palm Spring					
Car-parking Spaces	24			4.4	3.8
Total				**613.3**	**534.8**
Recognised sales from joint venture project					
Guangzhou Dolce Vita					
Retail Unit**(47.5% basis)	1	8,932	3,384	28.5	24.9
Car-parking Spaces**(47.5% basis)	8			2.5	2.2
Total				**31.0**	**27.1**

Before business tax and value-added tax inclusive

The exchange rate adopted for the year ended 31 July 2019 is 0.8721.

* *After business tax and value-added tax exclusive*

** *Guangzhou Dolce Vita is a joint venture project with CapitaLand China Holdings Pte. Ltd. (“**CapitaLand China**”) in which each of Lai Fung Group and CapitaLand China has an effective 47.5% interest.*

Contracted Sales

As at 31 July 2019, Lai Fung Group's property development operations has contracted but not yet recognised sales of HK$238.3 million, comprising HK$104.4 million and HK$131.1 million from sales of residential and serviced apartment units in Zhongshan Palm Spring and cultural studios in Novotown Phase I, respectively, and HK$2.8 million from sales of car-parking spaces in Shanghai Regents Park, Guangzhou West Point and Guangzhou King's Park. Sales of the cultural studios of Novotown Phase I were strong and achieved an average selling price of HK$4,561 per square foot. Excluding the effect of currency translation, the Renminbi denominated contracted but not yet recognised sales of residential units, serviced apartment units, cultural studios and car-parking space as at 31 July 2019 amounted to RMB207.8 million (2018: RMB251.0 million).

Breakdown of contracted but not yet recognised sales as at 31 July 2019 is as follows:

Contracted basis	No. of units	Approximate GFA	Average selling price#	Turnover#	
		Square feet	HK$/square foot	HK$'million##	RMB'million
Zhongshan Palm Spring					
Residential High-rise Units	15	19,645	1,700	33.4	29.1
Residential House Units	10	21,164	2,637	55.8	48.7
Serviced Apartment Units###	10	10,414	1,460	15.2	13.3
Hengqin Novotown Phase I					
Cultural Studios	7	28,742	4,561	131.1	114.3
Subtotal	**42**	**79,965**	**2,945**	**235.5**	**205.4**
Shanghai Regents Park					
Car-parking Spaces	2			1.4	1.2
Guangzhou West Point					
Car-parking Space	1			0.6	0.5
Guangzhou King's Park					
Car-parking Space	1			0.8	0.7
Subtotal				**2.8**	**2.4**
Total				**238.3**	**207.8**

\# *Before business tax and value-added tax inclusive*

\## *The exchange rate adopted for the year ended 31 July 2019 is 0.8721.*

\### *The sale of serviced apartment units of Zhongshan Palm Spring will be recorded as disposal of assets classified as held for sale and the sales proceeds net of cost will be included in "Other operating gains/expenses, net" in the consolidated income statement of the Group when the sale is completed.*

Review of Major Properties Completed for Sale and under Development

Shanghai Northgate Plaza Redevelopment Project

Shanghai Northgate Plaza I is located on Tian Mu Road West in the Jing'an District in Shanghai near the Shanghai Railway Terminal and comprises office units, a retail podium and car-parking spaces. Shanghai Northgate Plaza II is a vacant site adjacent to Northgate Plaza I. In September 2016, Lai Fung Group completed the acquisition of the 6th to 11th floors of Hui Gong Building which is physically connected to Northgate Plaza I, together with the right to use 20 car-parking spaces in the basement. Lai Fung Group plans to redevelop Shanghai Northgate Plaza I, Northgate Plaza II and Hui Gong Building together under a comprehensive redevelopment plan which includes an office tower, a shopping mall and an underground car-parking structure and is expected to add a total GFA of approximately 693,600 square feet excluding car-parking spaces to the rental portfolio of Lai Fung Group. This project is expected to complete in the second quarter of 2022.

Shanghai Wuli Bridge Project

In July 2014, Lai Fung Group succeeded in the auction for the land use rights of a piece of land located by Huangpu River in Huangpu District in Shanghai with a site area of approximately 74,100 square feet. Construction work has been completed in August 2019. This high-end luxury residential project has attributable GFA of approximately 77,900 square feet and is expected to be launched for sale in coming months.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a completed mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Jing'an District in Shanghai and situated near the Zhongshan Road North Metro Station. As of 31 July 2019, 458 car-parking spaces of this development remained unsold with a carrying amount of approximately HK$102.0 million.

Shanghai Regents Park

Shanghai Regents Park is a large-scale residential/commercial composite development located in the Zhongshan Park Commercial Area at the Changning District, Shanghai. It is situated within walking distance of the Zhongshan Park Metro Station. As at 31 July 2019, a total of 253 car-parking spaces of this development remained unsold with a carrying amount of approximately HK$61.0 million.

Guangzhou King's Park

This is a high-end residential development located on Donghua Dong Road in Yuexiu District. The attributable GFA is approximately 98,300 square feet excluding 57 car-parking spaces and ancillary facilities. During the year under review, the sales of 1 car-parking space contributed HK$0.7 million to the turnover. As at 31 July 2019, the contracted but not yet recognised sales of the 1 car-parking space amounted to approximately HK$0.8 million and the 13 unsold car-parking spaces have a total carrying amount of approximately HK$9.6 million.

Guangzhou Haizhu Plaza

Guangzhou Haizhu Plaza is located on Chang Di Main Road in Yuexiu District, Guangzhou along the Pearl River. Lai Fung Group owns the entire project. The proposed development has a total project GFA of approximately 580,800 square feet and is intended to be developed for rental purposes. The construction commenced in the first half of 2019 and the completion is expected to be in the first half of 2023.

Zhongshan Palm Spring

The project is located in Caihong Planning Area, Western District of Zhongshan. The overall development has a total planned GFA of approximately 6.075 million square feet. The project comprises of high-rise residential towers, townhouses and commercial blocks totaling 4.466 million square feet.

During the year under review, 158,473 square feet of high-rise residential units and 52,870 square feet of house units were recognised at average selling prices of HK$1,590 and HK$2,739 per square foot, respectively, which contributed a total of HK$378.1 million to the sales turnover. As at 31 July 2019, contracted but not yet recognised sales for high-rise residential units and house units amounted to HK$33.4 million and HK$55.8 million, at average selling prices of HK$1,700 and HK$2,637 per square foot, respectively.

STARR Resort Residence Zhongshan comprising two 16-storey blocks in the Palm Lifestyle complex was closed during the year under review. The serviced apartment units were launched for sale in May 2019 and have been re-classified from “Property, plant and equipment” to “Assets classified as held for sale” in the consolidated statement of financial position of the Group as at 31 July 2019. As at 31 July 2019, contracted but not yet recognised sales for serviced apartment units amounted to HK$15.2 million, at an average selling prices of HK$1,460 per square foot. The sale of these serviced apartment units will be recorded as disposal of assets classified as held for sale and the sales proceeds net of cost will be included in “Other operating gains/expenses, net” in the consolidated income statement of the Group.

As at 31 July 2019, completed units held for sale in this development, including high-rise residential units, house units and serviced apartment units, amounted to approximately 373,800 square feet with a total carrying amount of approximately HK$304.7 million. The carrying amount of the 1,215 unsold car-parking spaces of this development as at 31 July 2019 was approximately HK$110.9 million.

The remaining GFA under development was approximately 2,099,200 square feet. Set out below is the current expectation on the development of the remaining phases:

Phase	Description	Approximate GFA* (square feet)	Expected completion
III	High-rise residential units including commercial units	523,100	Q3 2020
IV	High-rise residential units including commercial units	1,576,100	Q3 2021

* *Excluding car-parking spaces and ancillary facilities*

Hengqin Novotown Phase I

On 25 September 2013, the Company and Lai Fung jointly announced that Lai Fung had successfully won the bid of the land use rights of the land for Novotown Phase I which is 80% owned by Lai Fung Group and 20% owned by LSD Group as of the date of this annual report. Novotown Phase I has a total GFA of 4.0 million square feet including car-parking spaces and ancillary facilities. The total development cost is estimated to be approximately RMB5,447 million (equivalent to approximately HK$6,182 million). Construction work is expected to be completed by phases by the end of 2019.

The expected GFA breakdown by usage including GFA of 24,207 square feet for cultural studios that have been sold up to 31 July 2019 is set out below:

Usage	GFA (square feet)
Cultural themed hotel	594,763
Cultural workshop	430,640
Cultural commercial area	526,264
Performance halls	155,193
Cultural attraction (Lionsgate Entertainment World®)	242,906
Cultural attraction (National Geographic Ultimate Explorer Hengqin)	50,386
Office	543,020
Cultural studios (for sale)	244,936
Car-parking spaces	429,734
Ancillary facilities and others	830,216
Total	**4,048,058**

Hyatt group was engaged as the manager for the cultural themed hotel in March 2015. On 30 October 2015, a licensing agreement was entered into with Lionsgate LBE, Inc. for the development and operation of the Lionsgate Entertainment World® in Novotown Phase I. Village Roadshow Theme Parks, the world renowned theme park operator with attractions across Australia and America, was appointed in July 2016 to consult during the construction phase, to oversee its pre-opening and to operate the Lionsgate Entertainment World® for a minimum of 10 years. The Lionsgate Entertainment World® opened on 31 July 2019 featuring attractions, retail, and dining experiences themed around Lionsgate's most captivating global film franchises, including The Hunger Games, The Twilight Saga, The Divergent Series, Now You See Me, Gods of Egypt and Escape Plan.

Lai Fung Group also entered into licensing agreements on 30 October 2015 with a master license holder of National Geographic Society to develop a family edutainment center called National Geographic Ultimate Explorer Hengqin, the size of which is approximately 50,400 square feet, containing 18 individual attractions including rides, F&B facilities, retail premises, virtual reality and/or 4-D interactive experiences, and other types of entertainment and educational attractions. The National Geographic Ultimate Explorer Hengqin officially commenced operations on 9 September 2019.

The cross border bus service between Hong Kong and Novotown has been launched by Trans-Island Limousine Service Limited, a wholly-owned subsidiary of Kwoon Chung Bus Holdings Limited in July 2019.

Sales of the cultural studios of Novotown Phase I were strong. During the year under review, sales of 24,207 square feet was recognised at an average selling price of HK$5,274 per square foot, which contributed HK$121.6 million to Lai Fung Group's turnover. As at 31 July 2019, contracted but not yet recognised sales for cultural studios amounted to HK$131.1 million, translating into an average selling price of HK$4,561 per square foot. Completed cultural studios held for sale in this development as at 31 July 2019 amounted to approximately 173,230 square feet with a carrying amount of approximately HK$334.0 million.

Hengqin Novotown Phase II

In June 2017, Lai Fung Group entered into a licence agreement with Real Madrid Club in relation to the development and operation of a location based entertainment centre, namely Real Madrid World in Novotown. The Real Madrid World is expected to consist of three floors with over 20 attractions spanning across a total area of approximately 12,000 square meters, and will be made up of several signature experiences including the Flying Theatre and the Stuntpit, an array of interactive training games, a walkthrough of Real Madrid history, plus dining and retail outlets.

In November 2017, Lai Fung Group entered into a cooperation agreement with Harrow International (China) Management Services Limited and ILA Holdings Limited to introduce Harrow International China Group, the world's leading learning institution, to set up ILA Hengqin in Hengqin. The curriculum at ILA Hengqin is structured to bring together the very best of British and Chinese educational philosophies and when it first opens in September 2020, the ILA Hengqin will initially offer grade 7-12 education for approximately 900 students as well as facilities for boarding students.

Lai Fung Group entered into a license agreement in December 2018 with Ducati in relation to the development and operation of the Ducati Experience Centre in Novotown. The Ducati Experience Centre expects to cover an area of no less than 4,500 square meters and will offer experiential attractions including immersive racing experiences, exclusive Ducati exhibits and retail concessions.

Lai Fung Group succeeded in bidding for the land use rights of the land offered for sale by Zhuhai Land Bureau through the listing-for-sale process in December 2018 and the land is situated adjacent to Novotown Phase I with a total site area of approximately 143,800 square meters and a maximum plot ratio of 2 times and has been designated for the development of Novotown Phase II. Real Madrid World, ILA Hengqin and Ducati Experience Centre are expected to be the key elements in Novotown Phase II and details of the development plan will be formulated upon finalisation of the master layout plan with the Chinese Government. Lai Fung Group is in the process of finalising the master layout plan for Novotown Phase II with the Chinese Government.

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS AND GEARING

Cash and Bank Balances

As at 31 July 2019, cash and bank balances held by the Group amounted to HK$3,771.9 million (2018: HK$3,209.8 million) of which around 30.1% was denominated in Hong Kong dollar ("**HKD**") and United States dollar ("**USD**") currencies, and around 69.2% was denominated in Renminbi ("**RMB**"). Cash and bank balances held by the Group excluding cash and bank balances held by MAGHL Group and Lai Fung Group as at 31 July 2019 was HK$339.7 million (2018: HK$341.9 million). As HKD is pegged to USD, the Group considers that the corresponding exposure to USD exchange rate fluctuation is nominal. The conversion of RMB denominated cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of Mainland China are subject to the relevant rules and regulations of foreign exchanges control promulgated by the government authorities concerned. Apart from the cross currency swap arrangements of Lai Fung Group, the Group does not have any derivative financial instruments or hedging instruments outstanding.

Borrowings

As at 31 July 2019, the Group had outstanding consolidated total borrowings (after intra-group elimination) in the amount of HK$10,065.3 million. The borrowings of the Group (other than MAGHL and Lai Fung), MAGHL and Lai Fung, are as follows:

Group (other than MAGHL and Lai Fung)

As at 31 July 2019, the Group had guaranteed general banking facilities granted by certain banks. As at 31 July 2019, the Group had outstanding bank loans of HK$102.4 million and utilised letter of credit and letter of guarantee facilities of HK$4.9 million. All bank loans are repayable within 1 year and are on floating rate basis and are denominated in HKD.

Apart from the bank loans, the Group had outstanding loans of HK$750.0 million from Hibright Limited ("**Hibright**"), which is a wholly-owned subsidiary of LSD. The loans are on floating rate basis, denominated in HKD with HK$700.0 million repayable within 1 year and HK$50.0 million repayable in the second year. The Group has the undrawn facilities of HK$170.1 million as at 31 July 2019.

In addition, there existed unsecured other borrowings due to the late Mr. Lim Por Yen in the principal amount of HK$113.0 million which is interest-bearing at the HSBC prime rate per annum. The Group's recorded interest accruals were HK$96.9 million for the said unsecured other borrowings as at 31 July 2019. At the request of the Group, the executor of Mr. Lim Por Yen's estate confirmed that no demand for the repayment of the outstanding other borrowings or the related interest would be made within 1 year from 31 July 2019.

MAGHL

As at 31 July 2019, MAGHL has unsecured and interest-bearing loans from Hibright and the Company of HK$200.0 million and HK$100.0 million respectively. The loans are on floating rate basis, denominated in HKD and are repayable within 1 year.

Lai Fung

As at 31 July 2019, Lai Fung Group had total borrowings in the amount of HK$9,119.2 million comprising bank loans of HK$5,987.7 million, guaranteed notes of HK$2,720.9 million, loans from a subsidiary of the Company of HK$316.2 million and other borrowings of HK$94.4 million. The maturity profile of Lai Fung Group's borrowings of HK$9,119.2 million is well spread with HK$791.2 million repayable within 1 year, HK$3,019.3 million repayable in the second year, HK$4,168.7 million repayable in the third to fifth years, and HK$1,140.0 million repayable beyond the fifth year. The undrawn facilities of Lai Fung Group was HK$2,647.9 million as at 31 July 2019.

Approximately 30% and 66% of Lai Fung Group's borrowings were on a fixed rate basis and floating rate basis, respectively, and the remaining 4% of Lai Fung Group's borrowings were interest free.

Apart from the guaranteed notes, Lai Fung Group's other borrowings of HK$6,398.3 million were 44% denominated in RMB, 48% in HKD and 8% in USD.

Lai Fung Group's guaranteed notes of HK$2,720.9 million were denominated in USD. Lai Fung Group has entered into cross currency swap agreements with financial institutions and the guaranteed notes have been effectively converted into HKD denominated debts.

Lai Fung Group's presentation currency is denominated in HKD. Lai Fung Group's monetary assets, liabilities and transactions are principally denominated in RMB, USD and HKD. Lai Fung Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the guaranteed notes have been effectively converted into HKD denominated debts and HKD is pegged against USD, Lai Fung Group believes that the corresponding exposure to USD exchange rate fluctuation is nominal. However, Lai Fung Group has a net exchange exposure to RMB as Lai Fung Group's assets are principally located in Mainland China and the revenues are predominantly in RMB. Apart from the aforesaid cross currency swap arrangements, Lai Fung Group does not have any derivative financial instruments or hedging instruments outstanding.

Charge on Assets and Gearing

Certain assets of the Group have been pledged to secure borrowings and banking facilities of the Group, including investment properties with a total carrying amount of approximately HK$10,890.3 million, properties under development with a total carrying amount of approximately HK$1,085.3 million, serviced apartments and related leasehold improvements with a total carrying amount of approximately HK$1,208.6 million and time deposits and bank balances of approximately HK$1,059.6 million.

As at 31 July 2019, the consolidated net assets attributable to the owners of the Company amounted to HK$9,098.6 million (2018: HK$9,259.5 million). The gearing ratio, being net debt (total borrowings of HK$10,065.3 million less pledged and restricted bank balances and time deposits of HK$1,173.9 million and cash and cash equivalents of HK$2,598.0 million) to net assets attributable to the owners of the Company was approximately 69.2%. Excluding the net debt of Lai Fung Group and MAGHL Group, the gearing ratio is approximately 7.9%.

Taking into account the amount of cash being held as at the end of the reporting period, the available loan and banking facilities, certain bank loans, the expected refinancing of certain loans and the recurring cash flows from the Group's operating activities, the Group believes that it would have sufficient liquidity for its present requirements to finance its existing operations and projects underway.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at 31 July 2019 are set out in Note 49 to the Financial Statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2019, the Group employed a total of around 2,570 (2018: 1,880) employees. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to employees based on their merit and in accordance with industry practice. Other benefits including share option scheme, mandatory provident fund scheme, free hospitalisation insurance plan, subsidised medical care and sponsorship for external education and training programmes are offered to eligible employees.

COMPLETED PROPERTIES HELD FOR RENTAL

Property name	Location	Group interest	Tenure	Approximate attributable gross floor area (square feet)			No. of car-parking spaces attributable to the Group
				Commercial/ Retail	Office	Total (excluding car-parking spaces & ancillary facilities)	
Shanghai							
Shanghai Hong Kong Plaza	282 & 283 Huaihaizhong Road, Huangpu District	50.55%	The property is held for a term of 50 years commencing on 16 September 1992	236,793	183,040	419,833	177
May Flower Plaza	Sujiaxiang, Jing'an District	50.55%	The property is held for a term of 40 years for commercial use commencing on 5 February 2007	161,919	–	161,919	–
Regents Park	88 Huichuan Road, Changning District	48.02%	The property is held for a term of 70 years commencing on 4 May 1996	39,408	–	39,408	–
Subtotal of major completed properties held for rental in Shanghai:				**438,120**	**183,040**	**621,160**	**177**
Guangzhou							
May Flower Plaza	68 Zhongshanwu Road, Yuexiu District	50.55%	The property is held for a term of 40 years for commercial use and 50 years for other uses commencing on 14 October 1997	180,678	40,152	220,830	69
West Point	Zhongshan Qi Road, Liwan District	50.55%	The property is held for a term of 40 years for commercial use and 50 years for other uses commencing on 11 January 2006	86,930	–	86,930	–
Lai Fung Tower	787 Dongfeng East Road, Yuexiu District	50.55%	The property is held for a term of 40 years for commercial uses and 50 years for other uses commencing on 21 October 1997	56,764	316,353	373,117	158
Subtotal of major completed properties held for rental in Guangzhou:				**324,372**	**356,505**	**680,877**	**227**
Zhongshan							
Palm Spring	Caihong Planning Area, Western District	50.55%	The property is held for a term expiring on 30 March 2075 for commercial/residential uses	74,515	–	74,515	–
Subtotal of major completed properties held for rental in Zhongshan:				**74,515**	**–**	**74,515**	**–**
Hengqin							
Novotown Phase I**	East side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Road, Hengqin New Area, Zhuhai City	60.44%	The property is held for a term of 40 years for office, commercial and serviced apartment and hotel uses and 50 years for other uses commencing on 31 December 2013	146,812*	–	146,812	–
Subtotal of major completed properties held for rental in Hengqin:				**146,812**	**–**	**146,812**	**–**
Total of major completed properties held for rental:				**983,819**	**539,545**	**1,523,364**	**404**

* *Cultural attraction portion of Notovown Phase I which is designated for the operation of Lionsgate Entertainment World®*

** *The disposal of the Group's 20% interest in Novotown Phase I to LSD Group was completed in September 2019.*

COMPLETED HOTEL PROPERTIES AND SERVICED APARTMENTS

Property name	Location	Group interest	Tenure	No. of rooms	Approximate attributable gross floor area (square feet)	No. of car-parking spaces attributable to the Group
Shanghai						
Ascott Huaihai Road Shanghai	282 Huaihaizhong Road, Huangpu District	50.55%	The property is held for a term of 50 years commencing on 16 September 1992	300	179,587	–
STARR Hotel Shanghai	Sujiaxiang, Jing'an District	50.55%	The property is held for a term of 50 years for commercial use commencing on 5 February 2007	239	72,714	–
Total of major completed hotel properties and serviced apartments:				**539**	**252,301**	**–**

PROPERTIES UNDER DEVELOPMENT

Property name	Location	Group interest	Stage of construction	Expected completion date	Approximate site area (square feet) (Note 1)	Approximate attributable gross floor area (square feet)					No. of car-parking spaces attributable to the Group
						Commercial/ Retail	Office	Serviced apartments	Residential	Total (excluding car-parking spaces & ancillary facilities)	
Guangzhou											
Haizhu Plaza	Chang Di Main Road, Yuexiu District	50.55%	Construction work in progress	H1 2023	90,708	52,654	240,953	–	–	293,607	154
Subtotal of major properties under development in Guangzhou:						**52,654**	**240,953**	**–**	**–**	**293,607**	**154**
Zhongshan											
Palm Spring	Caihong Planning Area, Western District	50.55%	Construction work in progress	Phase 3: Q3 2020 Phase 4: Q3 2021	2,547,298 (Note 2)	66,470	–	–	994,657	1,061,127	731
Subtotal of major properties under development in Zhongshan:						**66,470**	**–**	**–**	**994,657**	**1,061,127**	**731**
Shanghai											
Northgate Plaza redevelopment project	Tian Mu Road West, Jing'an District	50.55%	Construction work in progress	Q2 2022	107,223	47,605	303,010	–	–	350,615	280
Wuli Bridge project	Wuliqiao Road, 104 Jie Fang, Huangpu District	50.55%	Construction work in progress	Q3 2019 (Note 3)	74,112	–	–	–	39,400	39,400	49
Subtotal of major properties under development in Shanghai:						**47,605**	**303,010**	**–**	**39,400**	**390,015**	**329**
Hengqin											
Novotown Phase I (Note 4)	East side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Road, Hengqin New Area, Zhuhai City	60.44%	Construction work in progress	Q4 2019	1,401,184 (Note 2)	442,326	356,910	619,754	–	1,418,990	1,176
Novotown Phase II	East side of Yiwener Road, south side of Xiangjiang Road, west side of Yiwenyi Road and north side of Zhishui Road, Hengqin New Area, Zhuhai City	50.55%	Construction work in progress	2023	1,547,523	1,564,545	–	–	–	1,564,545	511
Subtotal of major properties under development in Hengqin:						**2,006,871**	**356,910**	**619,754**	**–**	**2,983,535**	**1,687**
Total of major properties under development:						**2,173,600**	**900,873**	**619,754**	**1,034,057**	**4,728,284**	**2,901**

Notes:

1. *On project basis*
2. *Including portions of the projects that have been completed for sale/lease*
3. *Construction works completed in August 2019.*
4. *The disposal of the Group's 20% interest in Novotown Phase I to LSD Group was completed in September 2019.*

COMPLETED PROPERTIES HELD FOR SALE

Property name	Location	Group interest	Approximate attributable gross floor area (square feet)				No. of car-parking spaces attributable to the Group
			Commercial/ Retail	Residential	Serviced apartments	Total (excluding car-parking spaces & ancillary facilities)	
Zhongshan							
Palm Spring	Caihong Planning Area, Western District	50.55%	17,035	188,963	–	205,998	614
Subtotal of major completed properties held for sale in Zhongshan:			**17,035**	**188,963**	**–**	**205,998**	**614**
Hengqin							
Novotown Phase I*	East side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Road, Hengqin New Area, Zhuhai City	60.44%	–	104,700	–	104,700	–
Subtotal of major completed properties held for sale in Hengqin:			**–**	**104,700**	**–**	**104,700**	**–**
Shanghai							
May Flower Plaza	Sujiaxiang, Jing'an District	50.55%	–	–	–	–	232
Regents Park, Phase II	88 Huichuan Road, Changning District	48.02%	–	–	–	–	121
Subtotal of major completed properties held for sale in Shanghai:			**–**	**–**	**–**	**–**	**353**
Guangzhou							
Eastern Place Phase V	787 Dongfeng East Road, Yuexiu District	50.55%	–	–	–	–	8
Dolce Vita	Jinshazhou, Heng Sha, Baiyun District	24.01%	–	–	–	–	10
King's Park	Donghua Dong Road, Yuexiu District	50.55%	–	–	–	–	7
West Point	Zhongshan Qi Road, Liwan District	50.55%	–	–	–	–	62
Subtotal of major completed properties held for sale in Guangzhou:			**–**	**–**	**–**	**–**	**87**
Total of major completed properties held for sale:			**17,035**	**293,663**	**–**	**310,698**	**1,054**

* *The disposal of the Group's 20% interest in Novotown Phase I to LSD Group was completed in September 2019.*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("**ESG**") report encapsulates the management approach, strategies and performance of the Company and its subsidiaries (collectively, "**Group**") in accordance with the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Unless otherwise specified, this Report covers the ESG management and performance of the Group for the year ended 31 July 2019. This Report has been approved and confirmed by the management team and the board of directors of the Company ("**Board**").

ESG GOVERNANCE

The management team is equipped with respective expertise in environmental, health and safety issues. They are responsible for the formulation of ESG policies and procedures to manage relevant ESG risks for their respective business sectors and assist the Board to oversee the management of ESG issues in business operations.

STAKEHOLDER ENGAGEMENT

The Company maintains regular communication channels with stakeholders in daily operations. To further understand the priorities of ESG issues in different business sectors from stakeholders' perspectives, the Company has previously engaged an independent consultant to conduct stakeholder engagement online surveys. With reference to the results of the online surveys, ESG issues were ranked and prioritised in terms of their importance to stakeholders and their importance to the Company's business development for materiality analysis.

MATERIALITY ANALYSIS

Through the stakeholder engagement exercise, management reviews and industry analysis, the Group identified the most material ESG issues in each business sector and prioritised its resources in managing these issues. This year, the list of issues was further reviewed by analysing the latest industry practices and verified by the management. Issues that are considered most material are indicated in the following table:

ESG Aspects		ESG Issues	Property	Cinema	Entertainment
Environmental		Emissions		✓	✓
		Use of resources	✓	✓	✓
		Environment and natural resources	✓		
Social	**Employment and labour practices**	Employment	✓	✓	✓
		Health and safety	✓	✓	
		Development and training			
		Labour standards	✓		✓
	Operating practices	Supply chain management			
		Product responsibility	✓	✓	✓
		Intellectual property rights		✓	✓
		Anti-corruption	✓		✓
	Community	Community investment	✓	✓	✓

OVERALL ENVIRONMENTAL MANAGEMENT APPROACH

To minimise the negative environmental impact from its business operations, the Group has set up environmental management policies which aim at improving our performance in emissions, energy consumption, waste management, resources use, and impact to the environment. All relevant laws and regulations on environmental protection are observed and addressed in our environmental management strategies. During the reporting year, there are no recordable non-compliance cases of environmental laws and regulations.

Environmental Management and Air Emissions

The Group is aware of the environmental impact of its business operations. We, therefore, manage our emissions proactively by applying various abatement procedures. Through various control measures at both Group level and all business sectors, the Group endeavours to minimise the amount of air and greenhouse gas emissions, wastewater discharges and waste generations in its business activities.

Policies and Initiatives in Property Business

During property development, there are emissions including air pollutants, wastewater and construction wastes. Therefore, the Group takes the initiative and specifies the terms with its contractors in complying the relevant local and national environmental laws and regulations in the agreements. These include, but not limited to, Environmental Protection Law of the People's Republic of China ("**PRC**"), Atmospheric Pollution Prevention and Control Law of the PRC, Water Pollution Prevention and Control Law of the PRC, Law of the PRC on Prevention and Control of Pollution from Environmental Noise, Land Administration Law of the PRC and Regulations on the Administration of Construction Project Environmental Protection. In the reporting year, there are no non-compliance cases to the above ordinances. We also carry out different mitigation initiatives at construction sites, targeting emissions reduction from the sites. For example, dust is one of the significant pollutants during construction and the Group minimises the air quality impact of dust by requesting contractors to arrange dust abatement procedures during material handling and vehicle movement. Besides, ultra-low sulphur diesel (ULSD), a type of fuel with lower sulphur dioxide concentration, is adopted to reduce emissions from development work. Where possible, the project team of the Group selects building materials with lower volatile organic compounds (VOCs).

The Group refers to "LEED v4 for Building Design and Construction" when designing and planning new projects for development in Mainland China. The LEED consultant has recommended emission controls such as waste disposal and sewage discharge for the Group to handle in a responsible way with required emission permit. All construction projects of the Group are assessed with the Environment Impact Assessment ("**EIA**"). Selected contractors will strictly follow the requirements from EIA to minimise the impact to the environment. From design stage to construction stage, the Group monitors and manages the use of green building design and the compliance of EIA with regard to air pollution, noise pollution, wastewater pollution and waste disposal.

Besides, contractors are required to provide an Environmental Management Plan (EMP), identifying and addressing any environmental risks with mitigation measures. We try our best to mitigate environmental impact from air pollution, noise pollution, wastewater pollution and waste disposal at design stage and construction stage and comply with relevant environmental laws and regulations.

To showcase our support to environmental management, Shanghai HKP Property Management Limited, a wholly-owned subsidiary of Lai Fung Holdings Limited ("**Lai Fung**", a non-wholly-owned subsidiary of the Company), has obtained ISO 14001:2004 Environmental Management System in 2012 and recently improved the system to the latest ISO 14001:2015 Environmental Management System.

Policies and Initiatives in Cinema Business

Considering the major source of emission in our cinema operation is the indirect carbon emission from energy consumption, the Group has formulated a management plan to reduce energy consumption which covers various measures on energy conservation, such as maintaining minimal functioning of air conditioning and other energy intensive equipment when individual cinema house is idle. The Group hopes to reduce indirect carbon emission and contribute to environmental protection by the implementation of energy saving measures.

Waste Management

To manage and minimise waste generation in the daily operations, the Group has formulated a waste management plan as a guidance on waste reduction, reuse, sorting and recycling. Various types of wastes are categorised into recyclables and non-recyclables, and where feasible, recycling bins are set up in office areas and properties of the Group to collect the recyclable waste. While we encourage the reuse of resources, non-recyclable waste is disposed through qualified waste management companies, in particular, electronic waste or other hazardous waste is managed according to relevant laws and regulations.

Policies and Initiatives in Property Business

The Group pays attention to the construction phase of its projects and puts in place relevant waste management procedures. We comply with the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes, and other relevant laws and regulations. Waste materials commonly generated at the Group's construction sites include general refuse, inert construction waste, non-inert construction waste, recyclable metals waste and chemical waste. Contractors of the Group are required to submit a waste disposal plan with waste management procedures to guide their waste management practices. The 3R principle – reduce, reuse, recycle, are applied in the waste disposal plan by on-site sorting while the other construction waste is disposed by authorised third party is arranged to handle all chemical waste and hazardous waste identified in the Directory of National Hazardous Wastes in Mainland China.

We actively sort out inert waste (including but not limited to rock, soil and sand) at construction sites for further use as sub-base and uses excavated soil for backfilling. To reduce waste disposal, dry concrete would be sorted out for recycling into aggregates for concrete production. Where feasible, the wooden boards would be reused. The Group has installed recycling bins of three colours on site and the recyclables are collected by recycling companies on regular basis.

In terms of chemical waste management, the Group has implemented some planned mitigation measures to minimise the generation of chemical waste on site. Chemical waste from all work areas and storage areas are collected and disposed by licensed chemical waste collectors and specialist contractors employed by the Group.

Resources Management and Conservation

The Group encourages all business sectors to have conscious management when consuming natural resources, such as electricity, fuel, and water sources, etc. In general, the Group supports all business sectors to implement initiatives in recycling and resources saving.

Policies and Initiatives in Property Business

The Group has an overall environmental management system for the properties and built environment and the Group strives to monitor its energy and water consumption as well as look for any conservation opportunities in our existing property portfolio. Monthly monitoring on energy and water consumption helps the Group's property management to avoid excessive use of energy and water leakage.

In Mainland China, the Group has established a resource and energy management plan to cultivate water and energy saving initiatives. Also, we encourage water recycling for irrigation and cleaning. The Group has installed automatic sensor tap at all toilets in Hong Kong Plaza to reduce water consumption. Where possible, the Group will upgrade its asset with energy saving equipment to enhance the energy efficiency of buildings held by the Group. In 2018, we have replaced the fan and renovated air conditioning pump inverter in Hong Kong Plaza, creating 320,000 kWh and 100,000 kWh energy saving per year, respectively. The Group will continue to review the energy consumption performances of other leasing and investment properties and will seek opportunities for further reduction on energy consumption.

Policies and Initiatives in Cinema Business

Electricity is the major type of resources consumed in the Group's cinema operation. To reduce energy consumption, the Group has established various guiding principles to manage the electricity use. The Group reviews the electricity usage and reinforces guiding principles regularly among our cinemas.

Co-existence with the Natural Environment

The Group recognises the importance of balancing its business development and the associated environmental impacts. We seek to reduce our businesses' negative impacts to the environment by setting up various policies and guidelines applying across all the business sectors of the Group.

Policies and Initiatives in Property Business

Understanding the potential impact from construction projects to natural resources and the surrounding environment, the Group takes the initiative to embed green building elements in new buildings whenever possible. From design stage to demolition stage, all new projects of the Group will be developed with the reference to the "LEED v4 for Building Design and Construction" in Mainland China in order to reduce the impact of buildings held by the Group to the surrounding environment. The Group always requires its contractors to submit the environmental management plan and will review actual performance on site against the plan to ensure that the planned mitigation measures are carried out.

OVERALL APPROACH ON EMPLOYMENT

Employment

The Group strives to be an equal opportunity employer and adopts various human resources management practices to retain talent and create a better working environment. Employee benefits, including compensation and dismissal, recruitment, working hours, leave management, prevention on sexual harassment and its expectations to employees' conduct and behaviour are outlined in the staff handbook. Other employee benefits, such as mandatory provident fund, enrolment to medical or commercial insurance scheme for respective eligible employees, social security and housing fund, are also implemented in respective region. Employees who have been working with the Group for over twelve months of services are eligible to apply for tuition scheme to receive training and development subsidy and sponsorship.

The Group has also signed the Good Employer Charter of the Labour Department. The Charter set out pledges that goes beyond legal requirements, covering employment aspects including employee care, work-life balance, employee benefits and employee communications.

The Group observes and complies with Chapter 57 Employment Ordinance, Chapter 282 Employees' Compensation Ordinance and Chapter 608 Minimum Wage Ordinance and in Mainland China, we comply with the Labour Law of the PRC and Labour Contract Law of the PRC (collectively, "**PRC Labour Laws**"). Relevant terms and conditions of employment are outlined in our staff handbook for staff's reference.

The Group endeavours to promote equal opportunities and non-discrimination in the employment practices. The Group complies with Chapter 480 Sex Discrimination Ordinance, Chapter 487 Disability Discrimination Ordinance, Chapter 527 Family Status Discrimination Ordinance and Chapter 602 Race Discrimination Ordinance (collectively, "**Ordinances**"). Based on the Ordinances, the Group has established policy to realise the commitment on equal opportunities and discrimination-free workplace. For complaints relating to workplace harassment, the complaints will be addressed and handled in a confidential and professional manner to protect the rights of the victim. Through increase the awareness and comprehensive policy and grievance mechanisms, we aim at minimising the risk of discrimination and harassment in our workplace.

There are no non-compliance cases in the aforementioned employment laws and regulations during the reporting year.

Health and Safety

Employees' health and safety is of the utmost importance in the Group's operation. The Group strives to minimise potential occupational health and safety risks in its workplace. The management of each business sector continues to manage and control the health and safety risk exposure in the Group's business operations. Meanwhile, measures and controls are in place to ensure employees in our premises are safe from health and safety hazards. The Group will continue to identify and mitigate potential health and safety risks in its business operations and maintain zero tolerance to work-related incidents and fatalities.

There are no non-compliance cases in Chapter 509 Occupational Safety and Health Ordinance in Hong Kong operation and Work Safety Law of the PRC, Law of the PRC on the Prevention and Control of Occupational Diseases and Construction Law of the PRC in Mainland China during the reporting year.

Policies and Initiatives in Property Business

The Group ensures that all safety measures are implemented properly in all property projects. We also focus on increasing staff awareness on health and safety issues and highly encourage our property managers to obtain relevant certifications, for example, OHSAS 18001:2007 Occupational Health and Safety Management.

At construction sites, occupational health and safety is the Group's priority. The Group endeavours to provide safe working environment to its employees during construction of property development projects. Safety officers are appointed for each project to monitor health and safety issues and submit on-site safety management plans. Weekly meetings are held to identify safety issues and ensure that measures are adopted to tackle and prevent the safety issues in the construction sites.

Apart from the construction sites, the Group also provides trainings to property management employees to raise their awareness on safety-related risks and corresponding measures. The Group provides new joiners in its property management teams with health and safety training on personal safety and use of equipment. Property management teams for residential or commercial buildings can also refer to the property management safety handbooks which is readily available to refresh their knowledge on health and safety issues.

In Mainland China, the Group complies with relevant laws and regulations on the Prevention and Control of Occupational Diseases. Employees are trained to understand safety measures relating to personal safety and the use of equipment and continuously increase their awareness on health and safety issues.

In addition to employees' health and safety at work, their mental wellness and physical health are also important in contributing to the productivity. Thus, the Group organises various wellness activities including voluntary wellness seminars and sports events for its employees to enhance physical and mental wellness as well as achieve work-life balance.

Development and Training

The Group's development is largely count on its people assets, hence the Group arranges various internal and external development programmes and provides career development opportunities to its employees. Employees with over twelve months of services with the Group can apply for our tuition scheme, regardless of the business sectors they are working in. The tuition scheme sponsors our employees to pursue further training and development courses relating to their positions and scope of work. The Group also provides subsidised courses to help its employees to attain professional and personal aspirations.

Policies and Initiatives in Property Business

The Group's property management team offers training to its employees based on the needs of their scope of work. Training programmes including on-board training, health and safety training, customer service training and skill-based training are delivered to enhance the capabilities of our property management employees. We will provide more well-suited trainings to our employees so that they can be well-equipped the skills and knowledge for their duties.

The Group also offers various recognised certificate courses and external training workshops. Employees of different levels received recognised certificate courses relating to their respective duties, such as sales and marketing skills, customer services, complaint handling, personal glooming, English communication, property security measures, occupational health and safety and computer literacy programmes. The Group also encourages employees to share their knowledge among themselves and with external experts in the industry.

Labour Standards

The Group strives to uphold labour rights for its employees. In Hong Kong, we observe and comply with Chapter 57B Employment of Children Regulations and Chapter 57C Employment of Young Persons (Industry) Regulations. The Group strictly prohibits to engage child labour and forced labour in all its business operations.

In Mainland China, the Group is in full compliance with the PRC Labour Laws and Provisions on the Prohibition of Using Child Labour which forbids the use of child labour of ages under 16 and any unlawful way of forced labour. Forced overtime work is prohibited. In case of required overtime work, workers will be paid according to relevant legal requirements. The above requirements also apply to the Group's contractors across all regions.

There are no non-compliance cases in the aforementioned laws and regulations in Hong Kong and Mainland China during the reporting year.

Employee Welfare

In addition to legal requirements, the Group understands the importance of well-maintained employee relations to business development. Therefore, the Group provides value-added staff benefits and well-being programmes for its employees. In Hong Kong, we organise monthly "Lunch Talk" sessions on occupational safety, health talks, work-out exercise class and various interest classes. The Group also organises film screening event and large scale annual events such as group annual dinner party and one-day leisure tour for employees with their family and friends. During the reporting year, the Group also arranged a pre-view day site visit to Novotown Lionsgate Entertainment World which is the latest Group's project opened in July 2019.

In Mainland China, the Group organised various team building and well-being programmes for its employees, including annual dinner party, birthday celebration, interest classes, sports activities, fitness programmes, voluntary well-being seminar and leisure tours during the reporting year. The Group also prepares gifts for its employees to express care and gratitude.

These activities benefit our employees and help them to achieve work-life balance. These are also good opportunities for team building and bonding with other colleagues.

OVERALL APPROACH ON MANAGING OPERATING PRACTICES

The Company endeavours to become a more sustainable company by dedicated management of its operating practices. This includes supply chain management, data protection and privacy, responsible and ethical practices, service excellence, intellectual property rights and integrity and discipline.

Supply Chain Management

Policies and Initiatives in Property Business

The Group understands how openness and fairness play a crucial role in its tendering process and other supply chain related issues. A clear tendering process has been formulated to outline the required number of quotations for construction projects of different scales.

Through outlining standards and requirements to contractors which are in line with local regulations, we take into consideration the environmental and safety issues of our contractors. As part of selection criteria in the tendering process, the Group will examine the environmental and safety measures of potential contractors. The Group requires all contractors to submit an environmental management plan and safety management plan upon selection.

The Group's contractors are required to follow the environmental control plan to eliminate pollution and waste to surrounding and follow the mitigation measurements in the EIA of the project. An on-site meeting with site management such as resident engineering, clerk of works and building services inspector, and licensed third-party consultants will be held by our management team. It focuses on discussing the quality of work and the health and safety standards of the project.

Data Protection and Privacy

The privacy rights of our clients remain at the forefront of our operation. The Group is committed to protecting the privacy rights of its clients and complies with Cap 486 Personal Data (Privacy) Ordinance. A Personal Information Collection Statement is provided to the data provider on or before personal particulars are collected at all times, to ensure that the data provider has shown consent. This measure has been communicated to the Group's business partners and clients.

During the reporting year, there are no non-compliance cases in the aforementioned laws and regulations in Hong Kong.

Policies and Initiatives in Property Business

We have a set of written procedures for handling the personal data received during the property sales and management process. For example, when it is deemed necessary to collect client's personal data, a Personal Data Collection Statement will be provided to the data provider in order to ensure that they understand the purpose of data collection. Such data and sales records, and other information which are obtained during the sales process are kept in the Group's internal system. The access rights of the internal system are only granted to the management and general staff are required to obtain approval from management level when accessing the system. Also, general staff can only view information of their own clients in the property sales and marketing process. All information collected would be kept as confidential and is only for the agreed sales. Measures are in place to ensure that the client data would not be misused for other marketing purposes.

Policies and Initiatives in Cinema Business

As part of the Group's cinema operation, we collect customers' personal data and information but only for necessary use of managing customer memberships, including members' name, birthday, email and telephone number, where the Group collects for registration and promotion. We are particularly cautious with the handling procedures of such information with clear steps of data collection and information disposal in the Personal Information Collection Statement for all relevant staff to ensure the security of customers' information. The Group also ensures that no personally identifiable information is collected during customer feedback and ticket sale processes. In case personally identifiable information is collected under special occasions, it will be disposed of in a confidential manner after appropriate use.

Responsible and Ethical Practices

Policies and Initiatives in Property Business

The Group takes necessary measures to prevent any misleading information for its customers and make sure its sales brochures, price lists, show flats, advertisements, and sales arrangement in compliance with relevant laws and regulations of Urban Real Estate Administration Law of the PRC regarding the sales process of the properties held by the Group. Marketing materials are reviewed by both external and internal solicitors to avoid the possibility of misrepresentation. Our marketing materials are counselled by our legal and management level to ensure compliance. By strictly following the government laws and regulations, the Group receives official sales permit from the Real Estate Administrative Department. The marketing materials remain fair and accurate to better represent actual project planning and nearby facilities by involving various departments such as finance, project management, sales and marketing. No exaggerate and misleading marketing information is allowed.

During the reporting year, there are no recordable non-compliance cases in relevant laws and regulations in Mainland China regarding the sales process of properties and marketing materials of the Group.

Policies and Initiatives in Cinema Business

At the Group's cinemas, we serve snacks and beverages to our customers and we uphold a high standard of food safety during our operation. Adhering to the Hygiene Manager and Hygiene Supervisor Scheme by Food and Environmental Hygiene Department, the Group has deployed management staff as hygiene supervisors in all cinemas. They are responsible for supervisory work of food handlers on proper food handling practices by conducting daily checking on the food conditions. This enables quality control of food sold to the customers.

During the reporting year, there are no non-compliance cases in Chapter 612 Food Safety Ordinance, Chapter 132 Public Health and Municipal Service Ordinance and Chapter 132W Food and Drugs (Composition and Labelling) Regulation.

Service Excellence

Policies and Initiatives in Property Business

In our property management operation, we seek to provide high quality experience to our customers. Regular questionnaires are sent to our customers to understand their opinion and satisfaction rate to the Group's service, including customer service, security service, environment and greening and construction management. For example, the Group received high customer satisfaction rate in its properties in Mainland China, in which Hong Kong Plaza from Shanghai received 94% overall satisfaction rate. In Guangzhou, Lai Fung Tower, West Point and May Flower Plaza received 98%, 97% and 98% overall satisfaction rate respectively. These feedback and comments are essential to the Group's continuous improvement on property management services. We have arranged trainings on business English, personal branding and cosmetics skills to improve our service quality.

To achieve high quality customer services, the Group's property management employees follow the standard complaint handling guidelines and procedures which strengthen the ability of the frontline staff to handle customers' and tenants' complaints. We also encourage direct communication with our customers which can ensure complaints are followed through. All complaint cases are well documented, and the record will be a valuable asset for continuous improvement.

Policies and Initiatives in Cinema Business

The Group values customer feedback which drives the improvement of its service delivery. Therefore, a comprehensive feedback mechanism via customer hotline and email is established to process their comments. All comments and complaints will be handled by our customer service representatives. A service target time is also set up for our staff to answer our customers. The management team oversees all communications with our customers via these feedback channels to ensure timely and accurate responses. The Group will continue to collect customer comments with this comprehensive feedback system and improve its service quality.

Policies and Initiatives in Entertainment Business

The Group builds its business foundation by offering high quality cultural and entertainment products and events to its customers. Hence, the Group invested significantly in gatekeeping the quality of its films, television programmes and music productions delivered to its audience and customers. The project management team also closely monitor the production process of our live shows so as to provide the best live experience to all our audience.

Intellectual Property Rights

The Group highly respects intellectual property rights in its businesses and appropriate security measures and confidentiality agreements are in place to ensure intellectual property rights are protected. Our legal team is responsible for reviewing the agreements on collaborations with third parties across all business segments and within the Group so as to minimise the chance of infringement.

Policies and Initiatives in Entertainment Business

The intellectual property rights of all creative works are vital to the Group's business. We also follow all relevant intellectual property laws and regulations, including but not limited to Chapter 559 Trade Marks Ordinance, Chapter 528 Copyright Ordinance and Chapter 544 Prevention of Copyright Piracy Ordinance. In the Group's production process, we ensure the producers and their team of our films, television programmes and music productions understand the procedures to clear the rights for any creative works prior to using or referencing such. The Group will take immediate action to clear the rights or address relevant issues in case there is any perceived infringement.

During the reporting year, there are no non-compliance cases in the aforementioned laws and regulations.

Integrity and Discipline

The Group values integrity, fairness and discipline and our employees are required to uphold ethics and integrity and strictly adhere to rules and procedures in accordance with Chapter 201 Prevention of Bribery Ordinance in Hong Kong and Criminal Law of the PRC and Law of the PRC on Anti-Corruption and Bribery in Mainland China. The Group makes it a high priority to prevent any cases of fraud or corruption in any of its business segments. During the reporting year, there are no non-compliance cases in the aforementioned laws and regulations in Hong Kong and Mainland China.

In order to steer clear from potential risks for corruption, the Group has clear definition of "advantages" and there is an outline of relevant procedures for its employees to handle any presents or gifts involved in the business in a proper manner. "Advantages" should be declared when handling any presents or gifts involved in the business. Anyone in violation of the policy and procedures would be penalised, while those who violate relevant government ordinances would be subject to legal consequences.

A whistleblowing procedure is in place as a monitoring system to maintain integrity and discipline among all levels of the Company. People who discover any inappropriate act or violation of Chapter 201 Prevention of Bribery Ordinance are encouraged to report to our management level for immediate investigation into the case.

Case Study – STAR Cinema

STAR Cinema has started operation since 2013 and it is dedicated to providing the best entertainment service to customers. As a core and long-term customer initiative, the loyalty programmes of MCL Club and MCL Club Plus were introduced, where customers can earn credits and enjoy discount in our cinemas. To provide excellent customer service, a Standard Operating Procedure Manual has been established to guide the staff of the cinema with regular monthly customer service training for both full-time and part-time staff. A centralised hotline is available for enquiries and if any customer feedback is received, our onsite manager will handle timely. Particularly, the Group has designed a mystery shopper mechanism where the actual service quality is examined twice a month in all cinemas. The 'inspection' covers ticketing, food and beverage, and venue management. The 'inspector' will indicate both scores and qualitative feedback in a report for our continuous improvement.

Apart from customer service, the Group recognises the importance to protect the privacy of its customers. In online ticketing system, we have strict access right control and regular review to make sure only authorised personnel can access the database. The ticketing system is also in compliance with the Visa Payment Standard "PCI DSS" to ensure security of payment process. The online ticket data is stored in the head office's database to reduce the spots of access. Whenever possible, we only collect basic personal information of customers for potential refund and redemption of tickets. As customers choose to enrol in our loyalty programme, the Group has included the Personal Information Collection Statement and Privacy Policy Statement in our application form. Any marketing materials will not be sent to unsubscribed individuals without consents.

OVERALL APPROACH ON COMMUNITY DEVELOPMENT

The Group believes that making good use of its resources to give back to the society is a way to fulfil its social responsibility. Our focuses of community service development are to offer local employment opportunity, youth education and provide assistance to aided family and the disabled. Through collaborations with local charities, the Group helps those communities in need.

For example, the Group purchases festive food products, such as fair-trade mooncake, for its employees in Hong Kong from local social enterprises to demonstrate its support in promoting environmental protection, creating local job opportunities and utilising local craftsmanship.

The Group also supports exercise for good initiatives. During the reporting year, the Group sponsored Konica Minolta Green Concert cum Grand Cycle Challenge Prix. The event combined cycling with power generation to promote environmental protection while raising funds for charitable organisations. The Group also formed a team to participate in the event.

To support the youth for career planning and development in Hong Kong, the Group offers internship placements for secondary school students through Yuen Long District Secondary School Students Summer Internship Programme. While equipping themselves with technical skills, students participating in the Summer Internship Programme can gain work experience and establish their self-confidence. Besides, the Group also organises career talks and classes on topics such as job hunting and office etiquette.

Policies and Initiatives in Property Business

The Group considers community need when developing projects in Mainland China. We organised annual community Poon Choi Feast to enhance community coherence. Meanwhile, the Group also promotes waste classification and water conservation in the community to raise public awareness on environmental protection. In addition to these community initiatives, the Group also supports community development through participating in charity walk.

SUMMARY OF ENVIRONMENTAL PERFORMANCE

Property *Note 1*	**Unit**	**Total**
A1.2 Greenhouse gas ("GHG") emissions in total and intensity		
Direct GHG emissions (Scope 1) *Note 2*	tonnes CO_2	65.5
Indirect GHG emissions (Scope 2) *Note 2*	tonnes CO_2	45,252.2
Total GHG emissions	**tonnes CO_2**	**45,317.6**
Total GHG emissions intensity	**tonnes CO_2/m^2**	**0.054**
A1.3 Total hazardous waste produced and intensity *Note 3*		
Fluorescent lamp waste	kg	507.8
Total hazardous waste disposed intensity	**kg/m^2**	**0.0021**
A1.4 Total non-hazardous waste produced and intensity *Note 4*		
General construction waste	kg	6,383,000
Soil excavation	kg	191,252,000
Steel recycled	kg	1,317,180
Renovation waste	kg	8,307,180
Total non-hazardous waste produced	**kg**	**207,259,360**
Total non-hazardous waste produced intensity	**kg/m^2**	**330.58**
A2.1 Direct and/or indirect energy consumption by type in total and intensity		
Electricity consumption	kWh	74,674,744
Diesel oil consumption for electric generator	L	24,200
Total energy consumption	**kWh**	**74,921,491**
Total energy consumption intensity	**kWh/m^2**	**89.78**
A2.2 Water consumption in total and intensity		
Water consumption	m^3	2,722,904
Total water consumption intensity	**m^3/m^2**	**3.26**

Note 1: The reporting scope for property includes Shanghai Hong Kong Plaza, Shanghai May Flower Plaza, Regents Park, Guangzhou May Flower Plaza, West Point, Lai Fung Tower, Palm Spring, Northgate Plaza redevelopment project, Wuli Bridge project, Novotown and Haizhu Plaza, all properties held by Lai Fung.

Note 2: GHG Emissions (Scopes 1 and 2) are calculated in accordance to National Development and Reform Commission's "Average Carbon Dioxide Emission Factors for China's Regional Power Grids in 2011 and 2012" and "Guidelines for Accounting and Reporting Greenhouse Gas Emissions China Public Building Operation Units (Enterprises)(Trial)".

Note 3: Northgate Plaza redevelopment project, Wuli Bridge project, Novotown and Haizhu Plaza are excluded. Data collection methodology has been revised in the reporting year to better reflect the actual usage.

Note 4: Novotown is excluded.

Cinema *Note 5*	**Unit**	**Total**
A1.2 Greenhouse gas (“GHG”) emissions in total and intensity		
Indirect GHG emissions (Scope 2) *Note 6*	tonnes CO_2e	2,440
Total GHG emissions intensity	**tonnes CO_2e/m^2**	**0.11**
A1.3 Total hazardous waste produced and intensity		
Fluorescent lamp waste	kg	150.63
Total hazardous waste disposed intensity	**kg/m^2**	**0.0069**
A1.4 Total non-hazardous waste produced and intensity		
General waste	kg	78,367
Total non-hazardous waste disposed intensity	**kg/m^2**	**3.61**
A2.1 Direct and/or indirect energy consumption by type in total and intensity		
Electricity consumption	kWh	4,213,435
Total energy consumption intensity	**kWh/m^2**	**193.98**
A2.2 Water consumption in total and intensity *Note 7*		
Water consumption	m^3	6,402
Total water consumption intensity	**m^3/m^2**	**0.33**

Note 5: *The reporting scope for cinema includes the cinemas in Hong Kong held by the Group (Festival Grand Cinema, MCL Metro City Cinema, MCL Telford Cinema, STAR Cinema, Grand Kornhill Cinema, MCL South Horizons Cinema, MCL Green Code Cinema, Grand Windsor Cinema, Movie Town). Data collection methodology for fluorescent lamp waste, general waste and water consumption has been revised in the reporting year to better reflect the actual usage.*

Note 6: *CO_2e emission from electricity is calculated based on the default factors provided by the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 edition).*

Note 7: *Grand Kornhill Cinema is excluded. Grand Windsor Cinema underwent renovation and the Group ceased the leasing of part of the MCL Metro City Cinema, resulting in a drop in water consumption in the reporting year.*

Entertainment *Note 8*	**Unit**	**Total**
A1.2 Greenhouse gas (“GHG”) emissions in total and intensity		
Direct GHG emissions (Scope 1) *Note 9*	tonnes CO_2e	26.18
Indirect GHG emissions (Scope 2) *Note 9*	tonnes CO_2e	159.78
Total GHG emissions	**tonnes CO_2e**	**185.96**
Total GHG emissions intensity	**tonnes CO_2e/m^2**	**0.01**
A2.1 Direct and/or indirect energy consumption by type in total and intensity		
Electricity Consumption	kWh	313,290 *Note 10*
Gasoline consumption for transportation	L	9,670 *Note 11*
Total energy consumption	**kWh**	**398,958**
Total energy consumption intensity	**kWh/m^2**	**22.01**

Note 8: The reporting scope of the summary of environmental performance includes the Group’s major office in Wyler Centre, Kwai Chung, New Territories. The total hazardous waste, non-hazardous waste and water consumption is managed by the central property management of the office building, thus, they are not applicable for this Report. The total packaging material used for finished products is not material for Media Asia Group Holdings Limited (a non-wholly-owned subsidiary of the Company), thus, it is not applicable for this Report.

Note 9: GHG Emissions (Scopes 1 and 2) are calculated based on the default factors provided by the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 edition).

Note 10: The Group’s major office in Wyler Centre was renovated and expanded in late 2018, resulting an increase in electricity consumption in the reporting year.

Note 11: The Group expanded its vehicle fleet for operation in late 2018, leading to increase in gasoline consumption.

CONTENT INDEX

Subject Areas, Aspects, and General Disclosure		Sections
A. Environmental		
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Management and Air Emissions; Waste Management
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Resources Management and Conservation
Aspect A3: Environment and Natural Resources	General Disclosure Policies on minimizing the issuer's significant impact on the environment and natural resources.	Co-existence with the Natural Environment
B. Social		
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment; Employee Welfare
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards

Subject Areas, Aspects, and General Disclosure		Sections
Operating Practices		
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Data Protection and Privacy; Responsible and Ethical Practices; Service Excellence; Intellectual Property Rights
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Integrity and Discipline
Community		
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Overall Approach on Community Development

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures for compliance with the principles and code provisions set out from time to time in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**" and "**Stock Exchange**", respectively).

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31 July 2019 ("**Year**") save for the deviations from code provisions A.4.1 and A.5.1 as follows:

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company ("**NEDs**", including the independent non-executive directors ("**INEDs**")) is appointed for a specific term. However, all directors of the Company ("**Directors**") are subject to the retirement provisions of the Bye-laws of the Company ("**Bye-laws**"), which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by the shareholders of the Company ("**Shareholders**") and the retiring Directors are eligible for re-election. In addition, any person appointed by the board of Directors ("**Board**") as a Director (including a NED) will hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company ("**AGM**") (in the case of an addition to the Board) and will then be eligible for re-election at that meeting. Further, in line with the relevant code provision of the CG Code, each of the Directors appointed to fill a casual vacancy has been/will be subject to election by the Shareholders at the first general meeting after his/her appointment. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision A.4.1 and therefore, does not intend to take any remedial steps in this regard.

Under code provision A.5.1, a nomination committee comprising a majority of the independent non-executive directors should be established and chaired by the chairman of the board or an independent non-executive director.

The Company has not established a nomination committee whose functions are assumed by the full Board. Potential new Directors will be recruited based on their knowledge, skills, experience and expertise and the requirements of the Company at the relevant time and candidates for the INEDs must meet the independence criterion set out in Rule 3.13 of the Listing Rules. The process of identifying and selecting appropriate candidates for consideration and approval by the Board has been, and will continue to be, carried out by the executive Directors ("**Executive Directors**"). Pursuant to the Mandatory Disclosure Requirement L.(d)(ii) of the CG Code, the Company has approved to adopt its nomination policy at its board meeting held on 22 January 2019 ("**Nomination Policy**") for improving transparency around the nomination process. As the above selection and nomination policies and procedures have already been in place and the other duties of the nomination committee as set out in the CG Code have long been performed by the full Board effectively, the Board does not consider it necessary to establish a nomination committee at the current stage.

(2) BOARD OF DIRECTORS

(2.1) Responsibilities and Delegation

The Board oversees the overall management of the Company's businesses and affairs. The Board's primary duty is to ensure the viability of the Company and to ascertain that it is managed in the best interests of the Shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely the Executive Committee, the Audit Committee and the Remuneration Committee. Specific responsibilities have been delegated to the above Committees.

The Board has delegated the day-to-day management of the Company's businesses to the management and the Executive Committee, and focuses its attention on matters affecting the Company's long-term objectives and plans for achieving these objectives, the overall business and commercial strategy of the Company and its subsidiaries ("**Group**") as well as overall policies and guidelines.

Decisions relating to the aforesaid matters and any acquisition or disposal of businesses, investments, or transactions or commitments of any kind where the actual or potential liability or value exceeds the threshold for discloseable transactions for the Company (as defined in the Listing Rules from time to time) are reserved for the Board; whereas decisions regarding matters set out in the terms of reference of the Executive Committee and those not specifically reserved for the Board are delegated to the Executive Committee and the management of the Company.

From April 2012 onwards, all Directors have been provided, on a monthly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects in sufficient detail to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

(2.2) Composition of the Board

The Board currently comprises nine members, of whom four are Executive Directors, one is NED and the remaining four are INEDs, exceeding the minimum number of INEDs required under Rule 3.10(1) of the Listing Rules. The Company has also complied with Rule 3.10A of the Listing Rules with INEDs representing at least one-third of the Board. The Board will review the management structure regularly to ensure that it continues to meet the Group's objectives and is in line with the industry practices.

The Directors who served the Board during the Year and up to the date of this Report are as follows:

Executive Directors
Mr. Lui Siu Tsuen, Richard *(Chief Executive Officer)*
Mr. Chew Fook Aun
Mr. Lam Hau Yin, Lester
Mr. Yip Chai Tuck

Non-executive Directors
Madam U Po Chu
Mr. Andrew Y. Yan (resigned on 8 January 2019)

Independent Non-executive Directors
Mr. Low Chee Keong *(Chairman)*
Mr. Lo Kwok Kwei, David
Dr. Ng Lai Man, Carmen
Mr. Alfred Donald Yap

An update list of Directors and their respective roles and functions can also be found on the Company's website at www.esun.com and the Stock Exchange's website at www.hkexnews.hk. The brief biographical particulars of the existing Directors are set out in the section headed "*Biographical Details of Directors*" of this Annual Report on pages 64 to 67.

Mr. Lam Hau Yin, Lester, an Executive Director, is a grandson of Madam U Po Chu, a NED. Save as aforesaid and as disclosed in the "*Biographical Details of Directors*" section of this Annual Report, none of the Directors has any financial, business, family or other material/relevant relationships with one another.

(2.3) Attendance Record at Board Meetings

The Board meets at least four times a year with meeting dates scheduled prior to the beginning of the year. Additional board meetings will be held when warranted. Directors also participate in the consideration and approval of matters of the Company by way of written resolutions circulated to Directors together with supporting explanatory materials as and when required.

During the Year, the Board held six meetings and the attendance record of each Director is set out below:

Directors	Number of Meetings Attended/ Number of Meetings Held
Executive Directors	
Mr. Lui Siu Tsuen, Richard *(Chief Executive Officer)*	5/5
Mr. Chew Fook Aun	5/5
Mr. Lam Hau Yin, Lester	5/5
Mr. Yip Chai Tuck	5/5
Non-executive Directors	
Madam U Po Chu	4/5[(Note 1)]
Mr. Andrew Y. Yan	1/1[(Note 2)]
Independent Non-executive Directors	
Mr. Low Chee Keong *(Chairman)*	5/5
Mr. Lo Kwok Kwei, David	5/5
Dr. Ng Lai Man, Carmen	5/5
Mr. Alfred Donald Yap	5/5

Notes:

1. *Madam U Po Chu did not attend one Board Meeting held during the Year due to the conflict of interests.*

2. *Mr. Andrew Y. Yan resigned as a NED on 8 January 2019.*

For the Year, apart from the Board meetings, consents and/or approvals of the Board were also obtained by way of written resolutions on a number of matters/transactions. The Chairman met all INEDs without the presence of the Executive Directors after the Board meeting held on 22 January 2019 in compliance with code provision A.2.7 of the CG Code.

(2.4) Independent Non-executive Directors

The Company has also complied with Rule 3.10(2) of the Listing Rules which requires that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the INEDs a written annual confirmation of his/her independence for the Year pursuant to Rule 3.13 of the Listing Rules. The Board considers that all INEDs are independent. Further, up to the date of this Report, the Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

(2.5) Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

(3) DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, Directors and senior executives are encouraged to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or law firms in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written training materials to develop and refresh their professional skills; the Group's Legal and Company Secretarial Departments also organise and arrange seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. Directors are requested to provide records of training they received to the Company Secretary of the Company ("**Company Secretary**") for records. During the Year, the Company has arranged for the INEDs to attend a seminar organised by the Company's independent auditor ("**Independent Auditor**").

According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the CG Code's requirement on continuous professional development during the Year:

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
Directors	**Read Materials**	**Attend Seminars/ Briefings**	**Read Materials**	**Attend Seminars/ Briefings**
Executive Directors				
Mr. Lui Siu Tsuen, Richard *(Chief Executive Officer)*	✓	✓	✓	✓
Mr. Chew Fook Aun	✓	✓	✓	✓
Mr. Lam Hau Yin, Lester	✓	✓	✓	✓
Mr. Yip Chai Tuck	✓	✓	✓	✓
Non-executive Director				
Madam U Po Chu	✓	✓	✓	–
Independent Non-executive Directors				
Mr. Low Chee Keong *(Chairman)*	✓	✓	✓	✓
Mr. Lo Kwok Kwei, David	✓	✓	✓	✓
Dr. Ng Lai Man, Carmen	✓	✓	✓	✓
Mr. Alfred Donald Yap	✓	✓	✓	✓

(4) BOARD COMMITTEES

The Executive Committee comprising members appointed by the Board amongst the Executive Directors was established on 23 December 2005 with written terms of reference to assist the Board in monitoring the on-going management of the Company's businesses and in implementing the Company's objectives in accordance with the strategy and policies approved by the Board. The Board has also delegated its authority to the following Committees to assist it in the implementation of its functions:

(4.1) Remuneration Committee

On 16 September 2005, the Board established a Remuneration Committee which currently comprises five members, including three INEDs, namely Mr. Low Chee Keong (Chairman), Dr. Ng Lai Man, Carmen and Mr. Alfred Donald Yap, and two Executive Directors, namely Mr. Chew Fook Aun and Mr. Lui Siu Tsuen, Richard (also the Chief Executive Officer of the Company).

The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of Directors and senior management of the Company. The terms of reference of the Remuneration Committee setting out its authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

(a) Duties of the Remuneration Committee

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all Directors and senior management of the Company, including but not limited to Directors' fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

(b) Work Performed by the Remuneration Committee

The Remuneration Committee held a meeting during the Year to deliberate on matters relating to the payment of discretionary bonuses to and the review of the remuneration packages of certain Executive Directors as well as other remuneration-related matters. No Director was involved in deciding his/her own remuneration at the meeting of the Remuneration Committee.

(c) Attendance Record at Remuneration Committee Meeting

The attendance record of each Committee member at the Remuneration Committee meeting held during the Year is set out below:

Committee Members	Number of Meeting Attended/ Number of Meeting Held
Executive Directors	
Mr. Chew Fook Aun	1/1
Mr. Lui Siu Tsuen, Richard	1/1
Independent Non-executive Directors	
Mr. Low Chee Keong *(Chairman)*	1/1
Dr. Ng Lai Man, Carmen	1/1
Mr. Alfred Donald Yap	1/1

(4.2) Audit Committee

On 29 April 1999, the Board established an Audit Committee which currently comprises three INEDs, namely Dr. Ng Lai Man, Carmen (Chairwoman), Mr. Low Chee Keong and Mr. Alfred Donald Yap. The Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive director) is an INED who possesses appropriate professional qualifications or accounting or related financial management expertise. All members of the Audit Committee have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

(a) Duties of the Audit Committee

The Audit Committee is principally responsible for, among other things, monitoring the integrity of periodical financial statements of the Company, reviewing significant financial reporting judgements contained in them before submission to the Board for approval, reviewing and monitoring the external auditor's independence and objectivity as well as the effectiveness of the audit process in accordance with applicable standards. The Audit Committee is also responsible for performing the corporate governance functions and to oversight the Company's risk management and internal control systems.

The Board believes that good corporate governance is essential to the success of the Group and the enhancement of Shareholders' value. While recognising corporate governance is the collective responsibility of all of its members, the Board has delegated the corporate governance functions to the members of Audit Committee who are considered to be better positioned to provide an objective and independent guidance on governance-related matters.

On 29 March 2012, the Board formalised the governance-related policies and procedures, established on the foundations of accountability, transparency, fairness and integrity and adopted by the Group for years, into a set of corporate governance policy. The Audit Committee has been delegated with the responsibilities to develop, review, monitor, and make recommendations to the Board (as appropriate) in respect of the Company's policies and practices of corporate governance (including the compliance with the CG Code and the relevant disclosures in the Company's interim and annual reports), the practices in compliance with legal and regulatory requirements, and the training and continuous professional development of the Directors and senior management of the Company.

In compliance with code provision C.3.2 of the CG Code which has come into effect on 1 January 2019, the terms of reference of the Audit Committee were revised by the Board on 22 January 2019 by extending the cooling-off period from one year to two years for appointing a former partner of the issuer's existing external auditor as a member of its audit committee. The revised terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

(b) Work Performed by the Audit Committee

The Audit Committee held three meetings during the Year and has reviewed, among other things, the audited final results of the Company for the year ended 31 July 2018; the unaudited interim results of the Company for the six months ended 31 January 2019; the Group's budget for the ensuing year; the Company's internal control review reports and enterprise risk management report prepared by Deloitte Touche Tohmatsu (an independent advisor of the Company ("**Independent Advisor**")); and put forward relevant recommendations to the Board for approval.

On 21 October 2019, the Audit Committee reviewed the draft consolidated financial statements of the Company as well as the accounting principles and policies for the Year with the Company's management in the presence of the representatives of the Independent Auditor (i.e. Ernst & Young, Certified Public Accountants ("**Ernst & Young**")). It also reviewed this Corporate Governance Report, the Company's internal control review report and enterprise risk management report prepared by the Independent Advisor.

(c) Attendance Record at Audit Committee Meetings

The attendance record of each Committee member at the Audit Committee meetings held during the Year is set out below:

Committee Members	Number of Meetings Attended/ Number of Meetings Held
Independent Non-executive Directors	
Dr. Ng Lai Man, Carmen *(Chairwoman)*	3/3
Mr. Low Chee Keong	3/3
Mr. Alfred Donald Yap	3/3

Note: Mr. Lo Kwok Kwei, David, an INED, participated in part of an Audit Committee meeting held during the Year for reviewing the continuing connected transactions of the Company.

(4.3) Independent Board Committee

Reference is made to the joint announcement dated 8 March 2019 issued by the Company, Lai Sun Garment (International) Limited ("**LSG**"), Lai Sun Development Company Limited ("**LSD**") and Lai Fung Holdings Limited ("**Lai Fung**") in connection with a connected transaction in respect of Lai Fung's execution of 2019 Supplemental Deed on 8 March 2019 in favour of LSD, LSG and the Lim Family in relation to certain amendments to the existing non-competition undertakings ("**2019 Supplemental Deed**"). The Board had established the Independent Board Committee ("**IBC**"), comprising Dr. Ng Lai Man, Carmen (Chairwoman), Messrs. Lo Kwok Kwei, David, Alfred Donald Yap and Low Chee Keong (all INEDs) to advise the independent shareholders of the Company ("**Independent Shareholders**") in respect of the 2019 Supplemental Deed. Details of which are set out in the circular of the Company dated 19 March 2019.

Further, reference is made to the joint announcement dated 23 July 2019 issued by the Company, LSG and LSD in connection with a major disposal and a connected transaction in respect of a share sale and purchase agreement dated 23 July 2019 ("**Sale and Purchase Agreement**") entered into between LSD (or its nominee) as buyer and Sunny Horizon Investments Limited, an indirect wholly-owned subsidiary of the Company, as seller, in relation to the proposed disposal of 20% of the total issued share capital of Rosy Commerce Holdings Limited and the transactions contemplated thereunder (collectively, "**Transaction**"). The Board had established the IBC, also comprising Dr. Ng Lai Man, Carmen (Chairwoman), Messrs. Lo Kwok Kwei, David, Alfred Donald Yap and Low Chee Keong (all INEDs) to advise and provide to the Independent Shareholders in respect of the Sale and Purchase Agreement and the Transaction. Details of which are set out in the circular of the Company dated 30 August 2019.

(5) CHAIRMAN AND CHIEF EXECUTIVE

The CG Code provides that the roles of the chairman and the chief executive should be separate and performed by different individuals.

During the Year and up to the date of this Report, Mr. Low Chee Keong (an INED) is the Chairman of the Board and Mr. Lui Siu Tsuen, Richard (an Executive Director) is the Chief Executive Officer of the Company. This segregation ensures a clear distinction between the Chairman's responsibilities to manage the Board and the Chief Executive Officer's responsibilities to manage the Company's businesses. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established and set out in writing.

(6) NON-EXECUTIVE DIRECTORS

As explained in Paragraph (1) above, none of the existing NED (including INEDs) was appointed for a specific term.

(7) NOMINATION OF DIRECTORS

As explained in Paragraph (1) above, the Company does not establish a nomination committee. The Board adopted the Nomination Policy to set out the procedures and criteria for identifying and selecting potential candidates for the appointment of new Director(s) as well as for considering the renewal of director appointment. The Executive Directors will conduct the relevant selection process against the proposed candidate, make recommendations and furnish with the terms and conditions of the appointment for Board's consideration. The Nomination Policy contains a number of factors in assessing the suitability of a proposed candidate which include the reputation for integrity, accomplishment and experience in the industry(ies) which may be relevant to the businesses of the Company, commitment for responsibilities of the Board in respect of available time and relevant interests, potential contributions to the Board with reference to the Board Diversity Policy (as defined below), and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an INED, etc.

The Shareholders may also propose a person for election as a Director, details of which are set out in "Procedures for Shareholders to Propose a Person for Election as a Director of the Company" which is available on the Company's website at www.esun.com. No candidate has been proposed for appointment as a Director during the Year.

(8) BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy ("**Board Diversity Policy**") in July 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including professional qualifications and experience, cultural and educational background, race and ethnicity, gender, age and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

On recommendation from the Executive Directors, the Board will set measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Executive Directors will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

A copy of the Board Diversity Policy is available on the Company's website for public information.

In compliance with code provision A.5.2(a) of the CG Code, the Board had, at its Board meeting held in July 2019, reviewed the structure, size and composition of the Board with reference to the Board Diversity Policy. The Company considers that the current composition of the Board, two out of its nine members being women, is characterised by diversity, whether considered in terms of gender, nationality, professional background and skills. The current Directors have extensive experience and skills in, including but not limited to, property development and investment, hospitality as well as media and entertainment businesses, corporate advisory, business development and investment banking, laws, accounting and auditing services and corporate finance, etc.

(9) SECURITIES TRANSACTIONS BY DIRECTORS AND DESIGNATED EMPLOYEES

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees ("**Securities Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors and they have confirmed in writing their compliance with the required standard set out in the Securities Code throughout the Year.

(10) DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that they are responsible for overseeing the preparation of the financial statements which give a true and fair view of the financial position of the Group and of the financial performance and cash flows for such reporting period. In doing so, the Directors select suitable accounting policies and apply them consistently and make accounting estimates that are appropriate in the circumstances. With the assistance of the accounting and finance staff, the Directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

More detailed descriptions of the changes in accounting policies and the related financial impacts are included in the audited consolidated financial statements of the Group for the Year.

(11) INDEPENDENT AUDITOR'S REPORTING RESPONSIBILITY

The statement by the Independent Auditor about its reporting and auditing responsibilities for the financial statements of the Group is set out in the section headed "Independent Auditor's Report" of this Annual Report.

(12) INDEPENDENT AUDITOR'S REMUNERATION

At the AGM held on 21 December 2018, Ernst & Young was re-appointed by the Shareholders as the Independent Auditor at a fee to be agreed by the Board. The fees in respect of the audit and non-audit services provided to the Group by Ernst & Young for the Year amounted to approximately HK$10,321,000 and HK$4,093,000, respectively. The non-audit services mainly consisted of certain agreed-upon procedures, tax advisory and other reporting services. An analysis of such fees is set out below:

	Audit service HK$'000	**Non-audit service** HK$'000
The Group (excluding Lai Fung and Media Asia Group Holdings Limited ("**MAGHL**") and their respective subsidiaries)	4,408	1,567
Lai Fung and its subsidiaries	3,691	1,929
MAGHL and its subsidiaries	2,222	597
Total	**10,321**	**4,093**

(13) RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems of the Group are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Risk Management Taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Risk Management Taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged the Independent Advisor to assist the Board and the Audit Committee in on-going monitoring of the risk management and internal control systems of the Group. The Independent Advisor assists to identify weaknesses relating to the design and implementation of the Group's internal controls and reports to the Audit Committee for identified weakness and proposed recommendation to ensure prompt remediation actions are taken.

The Company's enterprise risk management report and internal control review report are prepared by the Independent Advisor and submitted to the Audit Committee and the Board at least once a year. The Board performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers that the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with the requirements of Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in the Company's announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

(14) COMPANY SECRETARY

During the Year, the Company Secretary has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

(15) SHAREHOLDERS' RIGHTS

(15.1) Procedures for Shareholders to Convene Special General Meetings ("SGMs")

Pursuant to the Bye-laws, registered Shareholders holding not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("**SGM Requisitionists**") can deposit a written request to convene a SGM at the registered office of the Company ("**Registered Office**"), which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Company Secretary.

The SGM Requisitionists must state in their request(s) the objects of the SGM and such request(s) must be signed by all the SGM Requisitionists and may consist of several documents in like form, each signed by one or more of the SGM Requisitionists.

The Company's branch share registrar in Hong Kong ("**Registrar**") will verify the SGM Requisitionists' particulars in the SGM Requisitionists' request. Promptly after confirmation from the Registrar that the SGM Requisitionists' request is in order, the Company Secretary will arrange with the Board to convene a SGM by serving sufficient notice to all registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the SGM Requisitionists' request is verified not in order, the SGM Requisitionists will be advised of the outcome and accordingly, a SGM will not be convened as requested.

The SGM Requisitionists, or any of them representing more than one-half (50%) of the total voting rights of all of them, may themselves convene a SGM if within twenty-one (21) days of the deposit of the SGM Requisitionists' request, the Board does not proceed duly to convene a SGM provided that any SGM so convened is held within three (3) months from the date of the original SGM Requisitionists' request. Any reasonable expenses incurred by the SGM Requisitionists by reason of the Board's failure to duly convene a SGM shall be repaid to the SGM Requisitionists by the Company.

(15.2) Procedures for Putting Forward Proposals at a General Meeting

Pursuant to the Companies Act 1981 of Bermuda (as amended) either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("**Requisitionists**"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the Requisitionists may consist of several documents in like form, each signed by one or more of the Requisitionists; and it must be deposited at the Registered Office stated in paragraph (15.1) above with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six (6) weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one (1) week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six (6) weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

(15.3) Procedures for Proposing a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Corporate Governance section (Shareholders' Rights sub-section) of the Company's website at www.esun.com.

(15.4) Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

11/F., Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong

Fax: (852) 2743 8459
E-mail: lscomsec@laisun.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

(16) COMMUNICATION WITH SHAREHOLDERS

(16.1) Shareholders' Communication Policy

On 29 March 2012, the Board adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. It will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Company's website at www.esun.com and the Stock Exchange's website at www.hkexnews.hk;

(ii) financial highlights, press releases and results roadshows presentations are also posted on the Company's website;

(iii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Company and the Stock Exchange;

(iv) corporate information is made available on the Company's website and the Memorandum of Association and Bye-laws of the Company is made available on the respective websites of the Company and the Stock Exchange;

(v) participate in roadshows and investors' conferences to meet Shareholders/investors, media and financial analysts;

(vi) AGMs and SGMs provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management of the Company; and

(vii) the Registrar serves the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

(16.2) Directors' Attendance at Annual General Meeting

The Company held its AGM on 21 December 2018 and two SGMs on 8 August 2018 and 30 April 2019, respectively, and the attendance record of each Director at these meetings is set out below:

Directors	Number of Meetings Attended/ Number of Meetings Held	
	Annual General Meeting	Special General Meetings
Executive Directors		
Mr. Lui Siu Tsuen, Richard *(Chief Executive Officer)*	1/1	2/2
Mr. Chew Fook Aun	1/1	2/2
Mr. Lam Hau Yin, Lester	0/1	0/2
Mr. Yip Chai Tuck	0/1	2/2
Non-executive Directors		
Madam U Po Chu	0/1	0/2
Mr. Andrew Y. Yan (resigned on 8 January 2019)	0/1	0/1
Independent Non-executive Directors		
Mr. Low Chee Keong *(Chairman)*	1/1	1/2
Mr. Lo Kwok Kwei, David	1/1	2/2
Dr. Ng Lai Man, Carmen	1/1	2/2
Mr. Alfred Donald Yap	1/1	2/2

(16.3) Details of the Last General Meeting

The last general meeting of the Company, being the SGM, was held on Tuesday, 30 April 2019 at 10:15 a.m., at Grand Ballroom 1, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong. At the SGM, Shareholders approved, confirmed and ratified by a vast majority of votes the 2019 Supplemental Deed.

Further details of the 2019 Supplemental Deed and the notice of the SGM are contained in the Company's circular dated 19 March 2019; and the poll results of the above SGM are set out in the Company's announcement dated 30 April 2019, both published on the websites of the Company and the Stock Exchange.

(17) DIVIDEND POLICY

In compliance with code provision E.1.5 of the CG Code, the Board adopted a dividend policy ("**Dividend Policy**") on 22 January 2019 setting out the criteria and forms of dividend payout of the Company.

The Dividend Policy does not have any pre-determined dividend payout ratio. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account of factors such as (i) the Group's actual and expected underlying financial performance; (ii) the shareholders' interests; (iii) business condition and strategies; (iv) expected working capital requirements and future business growth plans; and (v) any other factors that the Board may consider appropriate.

There is no assurance that a dividend will be proposed or declared in any particular amount for any specific periods. Any declaration and payment of future dividends under the Dividend Policy will be subject to the Bye-laws and the Board's determination that the same would be in the best interests of the Group and the Shareholders as a whole. The Board will review the Dividend Policy from time to time and may adopt changes as appropriate at the relevant time to ensure the effectiveness of the Dividend Policy.

(18) INVESTOR RELATIONS

To ensure our investors have a better understanding of the Company, our management engages in a pro-active investor relations programme. Our Executive Directors and Investor Relations Department communicate with research analysts and institutional investors on an on-going basis and meet with research analysts and the press after our results announcements, attend major investors' conferences and participate in international non-deal roadshows to communicate the Company's financial performance and global business strategy.

Since 1 August 2018, the Company has met with a number of research analysts and investors as well as attended non-deal roadshows and conference as follows:

Month	Event	Organiser	Location
September 2018	2018 SCB Annual Investor Reverse Roadshow	Standard Chartered Bank	Hong Kong
October 2018	Post results non-deal roadshow	DBS	Singapore
November 2018	Post results non-deal roadshow	Maybank Kim Eng	Hong Kong
November 2018	Post results non-deal roadshow	DBS	London
November 2018	Post results non-deal roadshow	DBS	New York/ San Francisco
April 2019	Post results non-deal roadshow	DBS	Hong Kong
April 2019	Post results non-deal roadshow	DBS	Singapore
April 2019	Post results non-deal roadshow	Daiwa	London
April 2019	Post results non-deal roadshow	DBS	New York/ Syracuse
May 2019	Post results non-deal roadshow	DBS	Kuala Lumpur
September 2019	HSBC 3rd Annual Asia Credit Conference	The Hongkong and Shanghai Banking Corporation Limited	Hong Kong

The Company is keen on promoting investor relations and enhancing communication with the Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public who may contact the Investor Relations Department by phone on (852) 2853 6116 during normal business hours, by fax at (852) 2853 6651 or by e-mail at ir@esun.com.

(19) CONSTITUTIONAL DOCUMENTS

During the Year, there was no significant change in the Memorandum of Association and Bye-laws of the Company which are available on both the websites of the Company at www.esun.com and the Stock Exchange at www.hkexnews.hk.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Each of the executive directors of the Company ("**Directors**" and "**Executive Directors**", respectively) named below holds directorships in a number of subsidiaries of the Company and certain of its listed affiliates, namely Lai Sun Garment (International) Limited ("**LSG**"), Lai Sun Development Company Limited ("**LSD**"), Lai Fung Holdings Limited ("**Lai Fung**") and Media Asia Group Holdings Limited ("**MAGHL**"). The issued shares of LSG, LSD and Lai Fung are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") and MAGHL's issued shares are listed and traded on GEM of the Stock Exchange. LSG is the ultimate holding company of the Company, LSD is a subsidiary of LSG and the intermediate holding company of the Company, while Lai Fung and MAGHL are subsidiaries of the Company.

Mr. Lui Siu Tsuen, Richard, aged 63, was appointed the Chief Executive Officer of the Company in January 2011 and is presently a member of both the Executive Committee and the Remuneration Committee of the Company ("**Executive Committee**" and "**Remuneration Committee**", respectively). He joined the Company in April 2010 as the chief operating officer of its Media and Entertainment Division and became an Executive Director with effect from July 2010. Mr. Lui is also an executive director of MAGHL and he was an executive director of LSG, LSD and Lai Fung respectively from 1 January 2011 to 31 October 2012. In addition, Mr. Lui has been appointed the Convenor of Multi-media and Cultural Creation Industrial Committee of The Chinese Manufacturers' Association of Hong Kong for a term of three years from 1 January 2018 to 31 December 2021.

Mr. Lui is currently an independent non-executive director of Prosperity Investment Holdings Limited (the issued shares of which are listed and traded on the Main Board of the Stock Exchange). Prior to joining the Company, Mr. Lui had held senior executive positions in a few Hong Kong and overseas listed companies.

Mr. Lui has over 33 years of experience in property investment, corporate finance and media and entertainment businesses. He is a fellow member of each of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and The Chartered Institute of Management Accountants, United Kingdom and holds a Master of Business Administration Degree from The University of Adelaide in Australia.

The Company and Mr. Lui have entered into an employment contract with no fixed term. In accordance with the provisions of the Bye-laws of the Company ("**Bye-laws**"), Mr. Lui will be subject to retirement from office as a Director by rotation once every three years if re-elected at the forthcoming annual general meeting of the Company ("**AGM**") and will also be eligible for re-election at future AGMs.

Mr. Lui presently receives an annual remuneration of about HK$4,737,600 from the Company and an director's fee of HK$120,000 from MAGHL as well as other allowances (where applicable), and such remuneration and discretionary bonus as may be determined by the respective boards of the Company and MAGHL from time to time with reference to the results of the Company and MAGHL, his performance, duties and responsibilities and time allocated to the Company and MAGHL as well as the prevailing market conditions.

Save as disclosed above, Mr. Lui has not held any directorship in any other listed public companies in the last three years and does not have any relationship with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of this Annual Report, except (i) his personal interests in 185,600 shares of LSG ("**LSG Shares**"); and (ii) the share option granted to him to subscribe for 104,000 shares of LSD ("**LSD Shares**") pursuant to the share option scheme of LSD adopted in 2006, Mr. Lui does not have any interest or short position in the shares, underlying shares and/or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**").

In accordance with the Bye-laws, Mr. Lui will retire as a Director at the forthcoming AGM and being eligible, offer himself for re-election thereat. Save as disclosed above, there are no other matters which need to be brought to the attention of the shareholders of the Company ("**Shareholders**") and there is no information to be disclosed pursuant to the requirements under Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

Mr. Chew Fook Aun, aged 57, was appointed an Executive Director on 5 June 2012 and is presently a member of both the Executive Committee and Remuneration Committee. He is also the deputy chairman and an executive director of LSG and LSD as well as the chairman and an executive director of Lai Fung.

Prior to joining the Lai Sun Group, Mr. Chew was an executive director and the group chief financial officer of Esprit Holdings Limited ("**Esprit**") from 1 February 2009 to 1 May 2012, and an executive director and the chief financial officer of The Link Management Limited (currently known as "Link Asset Management Limited") acting as manager of The Link Real Estate Investment Trust (currently known as "Link Real Estate Investment Trust") ("**Link REIT**") from February 2007 to January 2009. He was also the chief financial officer of Kerry Properties Limited ("**Kerry Properties**") from 1996 to 2004, a director of corporate finance for Kerry Holdings Limited from 1998 to 2004 and an executive director of Kyard Limited in charge of the property portfolio of a private family office from 2004 to 2007. The issued shares of Esprit and Kerry Properties and the issued units of the Link REIT are listed and traded on the Main Board of the Stock Exchange.

Mr. Chew has over 30 years of experience in accounting, auditing and finance in the United Kingdom and Hong Kong. He graduated from the London School of Economics and Political Science of the University of London in the United Kingdom with a Bachelor of Science (Economics) Degree. Mr. Chew is a fellow member of both the HKICPA and The Institute of Chartered Accountants in England and Wales. He was a council member of the HKICPA and its vice president in 2010. Mr. Chew is currently a member of the operations review committee of the Independent Commission Against Corruption ("**ICAC**"), a member of the Barristers Disciplinary Tribunal Panel and a member of the Board of Directors of the Hong Kong Sports Institute Limited. He was a member of the advisory committee of the Securities and Futures Commission, the corruption prevention advisory committee of the ICAC and the standing committee on company law reform of the Companies Registry, and a council member of the Financial Reporting Council.

Mr. Lam Hau Yin, Lester, aged 38, was appointed an Executive Director on 1 November 2012 and is currently a member of the Executive Committee. He is also an executive director of both LSG and LSD, as well as an executive director and the chief executive officer of Lai Fung. Further, Mr. Lam is also an alternate director to Madam U Po Chu ("**Madam U**", also a non-executive Director of the Company ("**NED**")) in her capacity as an executive director of LSG.

Mr. Lam is a grandson of Madam U and a son of Dr. Lam Kin Ngok, Peter ("**Dr. Peter Lam**", a substantial shareholder of the Company within the meaning of Part XV of the SFO).

Mr. Lam holds a Bachelor of Science in Business Administration Degree from the Northeastern University in Boston of the United States of America. He completed the Kellogg-HKUST Executive MBA program in 2016. Mr. Lam has acquired working experience since 1999 in various companies engaged in securities investment, hotel operations, environmental products, entertainment and property development and investment.

Mr. Yip Chai Tuck, aged 45, was appointed an Executive Director on 14 February 2014 and is currently a member of the Executive Committee. He is also the chief executive officer of LSG and an executive director of MAGHL. He has extensive experience in corporate advisory, business development and investment banking. Prior to joining the Company, Mr. Yip was a managing director and head of Mergers and Acquisitions ("**M&A**") for China of Goldman Sachs. He had also worked for PCCW Limited, a Hong Kong listed company, as Vice President of Ventures and M&A, responsible for strategic investments and M&A transactions.

Mr. Yip graduated from Macquarie University, Australia with a Bachelor of Economics (Accounting) and holds a Master Degree in Applied Finance and Investments from the Financial Services Institute of Australia, where he is also a Fellow member.

NON-EXECUTIVE DIRECTOR

Madam U Po Chu, aged 94, is a NED and was first appointed as Director in October 1996. She is also an executive director of LSG and Lai Fung as well as a non-executive director of LSD.

Madam U has over 55 years' experience in the garment manufacturing business and had been involved in the printing business since the mid-1960's. She started to expand the business to fabric bleaching and dyeing in the early 1970's and became involved in property development and investment in the late 1980's.

Madam U is the grandmother of Mr. Lam Hau Yin, Lester (an Executive Director) and the mother of Dr. Peter Lam.

Madam U does not have a service contract with the Company. However, in accordance with the provisions of the Bye-laws, she will be subject to retirement from office as a Director by rotation once every three years if re-elected at the forthcoming AGM and will also be eligible for re-election at future AGMs.

Madam U currently does not receive any remuneration from the Company while receives an annual remuneration of about HK$2,880,000 from Lai Fung and other allowances (where applicable), and such remuneration and discretionary bonus as may be determined by the respective boards of the Company and Lai Fung from time to time with reference to the results of the Company and Lai Fung, her performance, duties and responsibilities and time allocated to the Company and Lai Fung as well as the prevailing market conditions.

Save as disclosed above, Madam U has not held any directorship in any other listed public companies in the last three years. As at the date of this Annual Report, except her personal interests in (i) 825,525 LSG Shares and (ii) 26,919 LSD Shares, Madam U does not have any interest or short position in the shares, underlying shares and/or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO.

In accordance with the Bye-laws, Madam U will retire as a Director at the forthcoming AGM and being eligible, offer herself for re-election thereat. Save as disclosed above, there are no other matters which need to be brought to the attention of the Shareholders and there is no information to be disclosed pursuant to the requirements under Rule 13.51(2) of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Low Chee Keong, aged 59, has been the Chairman of the board of directors of the Company ("**Board**") since June 2010 and is currently an independent non-executive director of the Company ("**INED**"), a member of the Audit Committee of the Company ("**Audit Committee**") and the chairman of the Remuneration Committee. Mr. Low first joined the Board in August 1999 as an INED, was re-designated as a NED in June 2010, and was further re-designated as an INED on 1 September 2011. Serving as a member of the Remuneration Committee since October 2009, he was the chairman of the Remuneration Committee from October 2009 to late March 2011 and re-assumed the Remuneration Committee chairmanship on 1 September 2011.

Mr. Low graduated from the Chartered Institute of Marketing in the United Kingdom in 1986. He has over 24 years' experience in the property development and maintenance industry in Singapore.

Mr. Lo Kwok Kwei, David, aged 59, joined the Board as a NED in March 2009 and has been re-designated from a NED to an INED with effect from 1 September 2011. Mr. Lo holds the degrees of Bachelor of Laws and Bachelor of Jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984 and has been a member of The Law Society of Hong Kong since 1987. Mr. Lo has been practising as a solicitor in Hong Kong for over 30 years and is a partner of a law firm David Lo & Partners. In addition, he is currently an independent non-executive director of Man Yue Technology Holdings Limited and Futong Technology Development Holdings Limited. Mr. Lo was an independent non-executive director of ENM Holdings Limited from 17 June 2010 to 3 June 2016. All issued shares of the aforesaid companies are listed and traded on the Main Board of the Stock Exchange.

Dr. Ng Lai Man, Carmen, aged 55, was appointed an INED in March 2009 and is presently the chairwoman of the Audit Committee and a member of the Remuneration Committee. She has over 30 years of experience in professional accounting services and corporate finance in Hong Kong, Mainland China, Singapore, the United States, Canada and Europe.

Dr. Ng is a practising certified public accountant in Hong Kong and is currently a director of Cosmos CPA Limited in Hong Kong. She is a fellow member of the HKICPA and The Association of Certified Chartered Accountants in the United Kingdom, and an associate member of The Institute of Chartered Accountants in England and Wales. Dr. Ng received her Doctor of Business Administration from The Hong Kong Polytechnic University, Degree of Juris Doctor from The Chinese University of Hong Kong, Master of Laws in Corporate and Financial Laws from The University of Hong Kong, Master of Business Administration from The Chinese University of Hong Kong, Master of Professional Accounting from The Hong Kong Polytechnic University as well as Master of Science in Global Finance jointly offered by Leonard N. Stern Business School of New York University and The Hong Kong University of Science & Technology.

In addition, Dr. Ng is an independent non-executive director of Lion Rock Group Limited (formerly known as "1010 Printing Group Limited") and Global International Credit Group Limited (the issued shares of the aforesaid companies are listed and traded on the Main Board of the Stock Exchange).

Mr. Alfred Donald Yap, J.P., aged 80, is an INED and a member of both the Audit Committee and the Remuneration Committee. He was first appointed to the Board in December 1996. Mr. Yap is presently a common consultant for both K. C. Ho & Fong, Solicitors and Notaries, and Yap & Lam, Solicitors. He was a former president of both The Law Society of Hong Kong and The Law Association for Asia and the Pacific (LAWASIA). He was also a former Hong Kong Affairs Adviser appointed by the Chinese Government and has served on various public and community organisations. Mr. Yap is an independent non-executive director of Hung Hing Printing Group Limited and Wong's International Holdings Limited (the issued shares of both companies are listed and traded on the Main Board of the Stock Exchange).

REPORT OF THE DIRECTORS

The directors of the Company ("**Directors**") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, "**Group**") for the year ended 31 July 2019 ("**Financial Statements**" and "**Year**", respectively).

PRINCIPAL ACTIVITIES

During the Year, the Company acted as an investment holding company and the principal activities of its subsidiaries included the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programmes, films and video format products, cinema operation, property development for sale and property investment as well as the development and operation of and investment in cultural, leisure, entertainment and related facilities.

Particulars of the Company's principal subsidiaries as at 31 July 2019 are set out in note 51 to the Financial Statements. There were no significant changes in the nature of the Group's principal activities during the Year and up to the date of this Report.

BUSINESS REVIEW

A review of the Group's businesses during the Year and a discussion and analysis of the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the "*Chairman's Statement*" and "*Management Discussion and Analysis*" on pages 4 to 11 and pages 16 to 30 of this Annual Report, respectively. An analysis of the Group's performance during the Year using financial key performance indicators is provided in the "*Financial Summary and Highlights*" on pages 12 to 15 of this Annual Report. The financial risk management objectives and policies of the Group are set out in note 48 to the Financial Statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the "*Environmental, Social and Governance Report*" and "*Corporate Governance Report*" on pages 35 to 48 and pages 49 to 63 of this Annual Report, respectively. These discussion form part of this Report.

RESULTS AND DIVIDENDS

Details of the consolidated profit of the Group for the Year and the Group's financial position as at 31 July 2019 are set out in the Financial Statements and their accompanying notes on pages 100 to 236.

The board of Directors ("**Board**") does not recommend the payment of a final dividend in respect of the Year (2018: Nil). No interim dividend was paid or declared in respect of the Year (2018: Nil).

DIRECTORS

The Directors who were in office during the Year and as at the date of this Report are as follows:

Executive Directors ("Executive Directors")
Mr. Lui Siu Tsuen, Richard *(Chief Executive Officer)*
Mr. Chew Fook Aun
Mr. Lam Hau Yin, Lester
Mr. Yip Chai Tuck

Non-executive Directors ("NEDs")
Madam U Po Chu
Mr. Andrew Y. Yan (resigned on 8 January 2019)

Independent Non-executive Directors ("INEDs")
Mr. Low Chee Keong *(Chairman)*
Mr. Lo Kwok Kwei, David
Dr. Ng Lai Man, Carmen
Mr. Alfred Donald Yap

In accordance with Bye-law 87 of the Bye-laws of the Company ("**Bye-laws**"), Directors shall retire from office by rotation once every three years since their last election. Mr. Lui Siu Tsuen, Richard ("**Mr. Richard Lui**") (an Executive Director) and Madam U Po Chu ("**Madam U**") (a NED) (together, "**Retiring Directors**") will retire from office as Directors by rotation at the forthcoming annual general meeting of the Company ("**AGM**") and, being eligible, will offer themselves for re-election.

Details of the Retiring Directors proposed for re-election at the forthcoming AGM, required to be disclosed under Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**" and "**Stock Exchange**", respectively) are set out in the sections headed "*Biographical Details of Directors*" of this Annual Report and "*Directors' and Chief Executive's Interests*" of this Report respectively.

All Retiring Directors have confirmed that there is no other information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules and there are no other matters that need to be brought to the attention of the shareholders of the Company ("**Shareholders**").

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its INEDs in writing an annual confirmation of his/her independence for the Year pursuant to Rule 3.13 of the Listing Rules and the Board considers all INEDs to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical particulars of the existing Directors are set out on pages 64 to 67 of this Annual Report. Directors' other particulars are contained elsewhere in this Report and this Annual Report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees and other emoluments are supervised by the Remuneration Committee of the Company and determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in the note 9 to the Financial Statements.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Bye-law 166(1) of the Bye-laws and subject to the provisions of the Statutes, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution or holding of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged Directors' and officers' liability insurance policy of the Company during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 5 to the Financial Statements, no Director nor a connected entity of a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its holding companies and its subsidiaries was a party during the Year.

MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its holding companies and its subsidiaries was entered into or subsisted during the Year.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "*Share Option Schemes*" and "*Directors' and Chief Executive's Interests*" in this Report below, in note 39 to the Financial Statements, and the respective share option schemes adopted by Lai Sun Garment (International) Limited ("**LSG**") and Lai Sun Development Company Limited ("**LSD**"), at no time during the Year was the Company or any of its holding companies and its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this Report, the following Directors (together, "**Interested Directors**") are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Four Executive Directors, namely Mr. Richard Lui, Mr. Chew Fook Aun ("**Mr. FA Chew**"), Mr. Lam Hau Yin, Lester ("**Mr. Lester Lam**") and Mr. Yip Chai Tuck ("**Mr. CT Yip**") as well as Madam U, held shareholding interests and/or other interests and/or directorships in companies/entities engaged in the businesses of media and entertainment and/or property development and investment and/or development and operation of and investment in cultural, leisure, entertainment and related facilities in Hong Kong and/or Mainland China.

However, the Board is independent from the boards of directors/governing committees of the aforesaid companies/entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging, his/her fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and the Shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

SHARE OPTION SCHEMES

1. The Company

On 11 December 2015, the Company adopted a new share option scheme ("**2015 Scheme**") and terminated its share option scheme adopted on 23 December 2005 ("**2005 Scheme**"). Upon the termination of the 2005 Scheme, no further share options will be granted thereunder but the subsisting options granted prior to the termination will continue to be valid and exercisable. The 2015 Scheme which became effective on 23 December 2015 remains in force for a period of 10 years commencing on its adoption date. The details of the 2015 Scheme are set out in the circular of the Company dated 12 November 2015. The maximum number of the Company's ordinary shares ("**Shares**") issuable pursuant to the 2015 Scheme is 124,321,216, being 10% of the total issued Shares on the date of the approval of the 2015 Scheme.

On 27 May 2018, a joint announcement was issued by LSG, LSD, Transtrend Holdings Limited ("**Offeror**", a wholly-owned subsidiary of LSD), the Company and Lai Fung Holdings Limited ("**Lai Fung**") in respect of, among others, (1) the conditional voluntary general cash offer to be made by The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") on behalf of the Offeror, to acquire all of the issued Shares (other than those already owned or agreed to be acquired by LSD, the Offeror or their respective subsidiaries) ("**eSun Share Offer**") and to cancel all the outstanding share options of the Company ("**eSun Option Offer**", and together with the eSun Share Offer, "**eSun Offers**") and (2) the possible unconditional mandatory general cash offer to be made by HSBC on behalf of the Offeror to acquire all of the issued shares of Lai Fung (other than those already owned or agreed to be acquired by LSD, the Offeror, the Company or their respective subsidiaries) and to cancel all the outstanding share options of Lai Fung.

Reference is made to the joint announcement issued by LSD, the Offeror and the Company dated 22 August 2018 ("**Closing Announcement**") in relation to the close and the results of the eSun Offers. As disclosed in the Closing Announcement, the eSun Offers closed at 4:00 p.m. on 22 August 2018 and the Offeror had received valid acceptances of eSun Option Offer in respect of 13,145,696 underlying Shares and such share options had been cancelled upon the eSun Option Offer becoming unconditional in all respects on 8 August 2018. In addition, pursuant to the terms of the 2005 Scheme and the 2015 Scheme, all share options of the Company not exercised (i.e. 19,704,969 underlying Shares) before the close of the eSun Share Offer (i.e. 22 August 2018) have lapsed upon the close of the eSun Share Offer. Therefore, as at 31 July 2019, all outstanding share options under the 2005 Scheme and the 2015 Scheme had lapsed or had been cancelled.

The movements of the share options granted under the 2005 Scheme and the 2015 Scheme during the Year are as follows:

		Number of underlying Shares comprised in share options					
Category/Name of participants	**Date of grant** (dd/mm/yyyy) *(Note 1)*	**As at 1 August 2018**	**Granted during the Year**	**Lapsed/ cancelled during the Year**	**As at 31 July 2019**	**Exercise period** (dd/mm/yyyy)	**Exercise price per Share** (HK$) *(Note 2)*
Directors							
Chew Fook Aun *(Note 3)*	05/06/2012	6,216,060	–	(6,216,060)	–	05/06/2012 – 04/06/2022	0.920
Lam Hau Yin, Lester *(Note 4)*	18/01/2013	12,432,121	–	(12,432,121)	–	18/01/2013 – 17/01/2023	1.612
Lui Siu Tsuen, Richard *(Note 5)*	18/01/2013	3,729,636	–	(3,729,636)	–	18/01/2013 – 17/01/2023	1.612
Subtotal		**22,377,817**	**–**	**(22,377,817)**	**–**		
Employees and other eligible participants							
Lam Kin Ngok, Peter ("**Dr. Peter Lam**") *(Note 6)*	18/01/2013	1,243,212	–	(1,243,212)	–	18/01/2013 – 17/01/2023	1.612
Employees (in aggregate)	18/01/2013	7,029,636	–	(7,029,636)	–	18/01/2013 – 17/01/2023	1.612
	21/01/2015	1,800,000	–	(1,800,000)	–	21/01/2015 – 20/01/2025	0.728
	19/01/2018	400,000	–	(400,000)	–	19/01/2018 – 18/01/2028	1.360
Subtotal		**10,472,848**	**–**	**(10,472,848)**	**–**		
Total		**32,850,665**	**–**	**(32,850,665)**	**–**		

Notes:

1. *The above share options were vested on the date of grant.*

2. *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other specific changes in the Company's share capital.*

3. *Mr. FA Chew tendered acceptances to eSun Option Offer by the Offeror to cancel all the outstanding share options in respect of his option relating to 6,216,060 underlying Shares on 27 July 2018. The eSun Option Offer has become unconditional in all respects and such option has been cancelled on 8 August 2018.*

4. *Pursuant to the terms of the 2005 Scheme, all share options of the Company would lapse upon the close of eSun Share Offer. Therefore, Mr. Lester Lam's option of relating to 12,432,121 underlying Shares has lapsed on 22 August 2018.*

5. *Mr. Richard Lui tendered acceptances to eSun Option Offer by the Offeror to cancel all the outstanding share options in respect of his option relating to 3,729,636 underlying Shares on 31 July 2018. The eSun Option Offer has become unconditional in all respects and such option has been cancelled on 8 August 2018.*

6. *Dr. Peter Lam, a substantial shareholder of the Company (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**")), was an Executive Director from 15 October 1996 to 13 February 2014. Pursuant to the terms of the 2005 Scheme, all share options of the Company would lapse upon the close of eSun Share Offer. Therefore, his option relating to 1,243,212 underlying Shares has lapsed on 22 August 2018.*

Save as disclosed above, no share options had been granted, exercised, cancelled, or lapsed in accordance with the terms of the 2005 Scheme and the 2015 Scheme during the Year. Further details of the said Schemes are disclosed in note 39(a) to the Financial Statements.

2. Media Asia Group Holdings Limited ("MAGHL")

On 18 December 2012, MAGHL, a company listed on GEM of the Stock Exchange and a non-wholly-owned subsidiary of the Company since 9 June 2011, adopted a share option scheme ("**MAGHL Scheme**") which was also approved by the Shareholders at a special general meeting of the Company ("**SGM**") held on 18 December 2012. The MAGHL Scheme will remain in force for a period of 10 years commencing on its adoption date.

In compliance with Chapter 23 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**"), MAGHL's shareholders passed a resolution at its annual general meeting held on 11 December 2015 to refresh scheme limit under the MAGHL Scheme, allowing MAGHL to grant options to subscribe for up to a total of 213,605,682 MAGHL's shares ("**Refreshment**"), representing 10% of its total issued shares as at the date of passing the relevant resolution. The Refreshment was also approved by the Shareholders at the AGM held on 11 December 2015 pursuant to the requirements of Rule 17.01(4) of the Listing Rules and Rule 23.01(4) of the GEM Listing Rules.

No share options have been granted under the MAGHL Scheme since its adoption on 18 December 2012. Further details of the MAGHL Scheme are disclosed in note 39(b) to the Financial Statements.

3. Lai Fung

On 18 December 2012, Lai Fung, a non-wholly-owned subsidiary of the Company listed on the Main Board of the Stock Exchange, adopted a new share option scheme ("**2012 Lai Fung Scheme**") and terminated its share option scheme adopted on 21 August 2003 ("**2003 Lai Fung Scheme**"). Upon the termination of the 2003 Lai Fung Scheme, no further share options will be granted thereunder but the subsisting options granted prior to the termination will continue to be valid and exercisable. The adoption of the 2012 Lai Fung Scheme and the termination of the 2003 Lai Fung Scheme were also approved by the Shareholders at a SGM held on 18 December 2012.

On 14 August 2017, the shareholders of Lai Fung at its extraordinary general meeting approved that every fifty issued and unissued ordinary shares of HK$0.10 each in the share capital of Lai Fung be consolidated into one ordinary share of HK$5.00 each in the share capital of Lai Fung ("**Lai Fung Shares**") which became effective on 15 August 2017 ("**Share Consolidation**"). As a result of Share Consolidation, the exercise price of the outstanding share options and number of shares comprised in the outstanding share options had been adjusted.

On 8 August 2018, the shareholders of Lai Fung at its extraordinary general meeting and the Shareholders at the SGM approved certain amendments to the 2003 Lai Fung Scheme and the affirmation of the continuing effectiveness of the share options granted pursuant to the 2003 Lai Fung Scheme. Details of the amendments are set out in the Company's circular dated 23 July 2018.

As at 31 July 2019, Lai Fung had a total of 10,814,117 underlying Lai Fung Shares comprised in share options outstanding (representing about 3.3% of total issued Lai Fung Shares as at that date (i.e. 327,386,965)), of which a share option comprising 1,009,591 underlying Lai Fung Shares was granted under the 2003 Lai Fung Scheme (as amended on 8 August 2018) and share options comprising 9,804,526 underlying Lai Fung Shares were granted under the 2012 Lai Fung Scheme.

As at the date of this Report, 900,000 and 10,304,526 underlying Lai Fung Shares comprised in share options were outstanding under the 2003 Lai Fung Scheme (as amended on 8 August 2018) and the 2012 Lai Fung Scheme due to the exercise of 109,591 underlying Lai Fung Shares and the grant of a share option comprising 500,000 Lai Fung Shares on 6 August 2019 and 19 August 2019, respectively; and Lai Fung might grant further options under the 2012 Lai Fung Scheme to subscribe for a maximum of 21,667,299 Lai Fung Shares (representing about 6.6% of total issued Lai Fung Shares as at the date of this Report (i.e. 327,496,556)).

The movements of the share options granted under the 2003 Lai Fung Scheme (as amended on 8 August 2018) and the 2012 Lai Fung Scheme during the Year are as follows:

Category/Name of participants	Date of grant (dd/mm/yyyy) (Note 2)	Number of underlying Lai Fung Shares comprised in share options (Note 1) As at 1 August 2018	Granted during the Year	Exercised during the Year	Lapsed during the Year	As at 31 July 2019	Exercise period (dd/mm/yyyy)	Exercise price per Lai Fung Share (HK$) (Note 3)
Directors of Lai Fung								
Chew Fook Aun	12/06/2012	1,009,591	–	–	–	1,009,591	12/06/2012 – 11/06/2020	6.65
Lam Hau Yin, Lester	18/01/2013	3,219,182	–	–	–	3,219,182	18/01/2013 – 17/01/2023	11.40
Cheng Shin How	18/01/2013	643,836	–	–	–	643,836	18/01/2013 – 17/01/2023	11.40
Lee Tze Yan, Ernest	18/01/2013	640,000	–	–	–	640,000	18/01/2013 – 17/01/2023	11.40
Subtotal		**5,512,609**	**–**	**–**	**–**	**5,512,609**		
Employees and other eligible participants (in aggregate)								
Batch 1	18/01/2013	3,871,508 (Note 4)	–	–	–	3,871,508	18/01/2013 – 17/01/2023	11.40
Batch 2	26/07/2013	220,000	–	–	–	220,000	26/07/2013 – 25/07/2023	9.50
Batch 3	16/01/2015	180,000	–	–	–	180,000	16/01/2015 – 15/01/2025	8.00
Batch 4	19/01/2018	450,000	–	–	–	450,000	19/01/2018 – 18/01/2028	13.52
Batch 5	22/01/2019 (Note 5)	–	580,000	–	–	580,000	22/01/2019 – 21/01/2029	10.18
Subtotal		**4,721,508**	**580,000**	**–**	**–**	**5,301,508**		
Total		**10,234,117**	**580,000**	**–**	**–**	**10,814,117**		

Notes:

1. *The number of underlying Lai Fung Shares has been adjusted as a result of the Share Consolidation (except the share options granted on 19 January 2018 and 22 January 2019).*

2. *The above share options were vested on the date of grant.*

3. *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Lai Fung's share capital. Save for the share options granted on 19 January 2018 and 22 January 2019, the exercise prices of the outstanding share options have been adjusted as a result of the Share Consolidation.*

4. *Dr. Peter Lam, a substantial shareholder of Lai Fung (within the meaning of Part XV of the SFO), was granted a share option to subscribe for a total of 321,918 Lai Fung Shares (after the effect of the Share Consolidation) on 18 January 2013.*

5. *The closing price of each Lai Fung Share immediately before the date on which the share option was granted (i.e. 22 January 2019) was HK$10.12.*

Save as disclosed above, no share options had been granted, exercised, cancelled, or lapsed in accordance with the terms of the 2003 Lai Fung Scheme (as amended on 8 August 2018) and the 2012 Lai Fung Scheme during the Year. Further details of the said Lai Fung Schemes are disclosed in note 39(c) to the Financial Statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

The following Directors and chief executive of the Company who held office on 31 July 2019 and their respective close associates (as defined in the Listing Rules) were interested, or were deemed to be interested, in the following long or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO ("**Register of Directors and Chief Executive**"); or (c) as notified to the Company and the Stock Exchange pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company ("**Securities Code**"); or (d) as otherwise known by the Directors:

(I) Interests in the Company

		Long positions in the Shares and underlying Shares				
		Number of Shares		Number of underlying Share		
Name of Director	Capacity	Personal interests	Corporate interests	Personal interests	Total	Approximate percentage of total issued Shares *(Note)*
Lam Hau Yin, Lester	Beneficial owner	2,794,443	Nil	Nil	2,794,443	0.19%

Note: The total number of issued Shares as at 31 July 2019 (1,491,854,598 Shares) has been used in the calculation of the approximate percentage.

(II) Interests in Associated Corporations

(a) LSG

Name of Directors	Capacity	Long positions in ordinary shares of LSG ("LSG Shares") and underlying LSG Shares: Number of LSG Shares – Personal interests	Number of LSG Shares – Corporate interests	Number of underlying LSG Shares – Personal interests (Note 1)	Total	Approximate percentage of total issued LSG Shares (Note 2)
Lam Hau Yin, Lester	Beneficial owner	12,366,937 (Note 3)	Nil	7,571,626	19,938,563	5.15%
Chew Fook Aun	Beneficial owner and owner of controlled corporation	Nil	202,422 (Note 4)	3,819,204	4,021,626	1.04%
Lui Siu Tsuen, Richard	Beneficial owner	185,600 (Note 5)	Nil	Nil	185,600	0.05%
U Po Chu	Beneficial owner	825,525	Nil	Nil	825,525	0.21%

Notes:

1. *These interests in underlying LSG Shares represent the interests in share options granted to the Directors under LSG's share option schemes. Details of the share options granted to each of Mr. Lester Lam (currently also an executive director of LSG) and Mr. FA Chew (currently also the deputy chairman and an executive director of LSG) are as follows:*

Name of Directors	*Date of grant (dd/mm/yyyy)*	*Number of underlying LSG Shares comprised in share options*	*Option period (dd/mm/yyyy)*	*Exercise price per LSG Share (HK$)*
Lam Hau Yin, Lester	*18/01/2013*	*3,752,422*	*18/01/2013 – 17/01/2023*	*6.05*
	19/06/2017	*3,819,204*	*19/06/2017 – 18/06/2027*	*15.00*
Chew Fook Aun	*19/06/2017*	*3,819,204*	*19/06/2017 – 18/06/2027*	*15.00*

2. *The total number of issued LSG Shares as at 31 July 2019 (386,879,622 LSG Shares) has been used in the calculation of the approximate percentage.*

3. *On 13 February 2019, Mr. Lester Lam has elected to receive a total of 82,999 LSG's scrip shares in lieu of cash dividend pursuant to scrip dividend scheme of LSG approved by its shareholders on 21 December 2018, increasing his interests in LSG Shares from 12,283,938 to 12,366,937.*

4. *Mr. FA Chew was deemed to be interested in the 202,422 LSG Shares owned by The Orchid Growers Association Limited by virtue of his 100% shareholding interest in the said company.*

5. *On 18 April 2019, Mr. Richard Lui exercised a share option granted to him under the share option scheme adopted by LSG on 22 December 2006.*

(b) LSD

Name of Directors	Capacity	Long positions in ordinary shares of LSD ("LSD Shares") and underlying LSD Shares: Number of LSD Shares – Personal interests	Number of LSD Shares – Corporate interests	Number of underlying LSD Shares – Personal interests (Note 1)	Total	Approximate percentage of total issued LSD Shares (Note 2)
Lam Hau Yin, Lester	Beneficial owner	Nil	Nil	4,173,081	4,173,081	0.69%
Chew Fook Aun	Beneficial owner and owner of controlled corporation	Nil	400,000 (Note 3)	3,773,081	4,173,081	0.69%
Lui Siu Tsuen, Richard	Beneficial owner	Nil	Nil	104,000	104,000	0.02%
U Po Chu	Beneficial owner	26,919	Nil	Nil	26,919	0.01%

Notes:

1. *These interests in underlying LSD Shares represent the interests in share options granted to the Directors under LSD's share option scheme. Details of the share option granted to each of Mr. Lester Lam (currently also an executive director of LSD), Mr. FA Chew (currently also the deputy chairman and an executive director of LSD) and Mr. Richard Lui are as follows:*

Name of Directors	***Date of grant*** *(dd/mm/yyyy)*	***Number of underlying LSD Shares comprised in share options***	***Option period*** *(dd/mm/yyyy)*	***Exercise price per LSD Share*** *(HK$)*
Chew Fook Aun	*05/06/2012*	*3,773,081*	*05/06/2012 – 04/06/2022*	*5.35*
Lam Hau Yin, Lester	*18/01/2013*	*4,173,081*	*18/01/2013 – 17/01/2023*	*16.10*
Lui Siu Tsuen, Richard	*18/01/2013*	*104,000*	*18/01/2013 – 17/01/2023*	*16.10*

2. *The total number of issued LSD Shares as at 31 July 2019 (606,464,125 LSD Shares) has been used in the calculation of the approximate percentage.*

3. *Mr. FA Chew was deemed to be interested in the 400,000 LSD Shares owned by The Orchid Growers Association Limited by virtue of his 100% shareholding interest in the said company.*

(c) Lai Fung

		Long positions in Lai Fung Shares and underlying Lai Fung Shares				
		Number of Lai Fung Shares		Number of underlying Lai Fung Shares		
Name of Directors	Capacity	Personal interests	Corporate Interests	Personal interests *(Note 1)*	Total	Approximate percentage of total issued Lai Fung Shares *(Note 2)*
Lam Hau Yin, Lester	Beneficial owner	Nil	Nil	3,219,182	3,219,182	0.98%
Chew Fook Aun	Beneficial owner and owner of controlled corporation	Nil	600,000 *(Note 3)*	1,009,591	1,609,591	0.49%

Notes:

1. *These interests in underlying Lai Fung Shares represent the interests in share options granted to the Directors under Lai Fung's share option schemes. Details of the share option granted to each of Mr. Lester Lam (currently also the chief executive officer and an executive director of Lai Fung) under the 2012 Lai Fung Scheme and Mr. FA Chew (currently also the chairman and an executive director of Lai Fung) under the 2003 Lai Fung Scheme are shown in the section headed "Share Option Schemes" of this Report.*

2. *The total number of issued Lai Fung Shares as at 31 July 2019 (327,386,965 Lai Fung Shares) has been used in the calculation of the approximate percentage.*

3. *Mr. FA Chew was deemed to be interested in the 600,000 Lai Fung Shares owned by The Orchid Growers Association Limited by virtue of his 100% shareholding interest in the said company. Upon exercise of a part of his share option to subscribe for 109,591 Lai Fung Shares under the 2003 Lai Fung Scheme (as amended on 8 August 2018) on 6 August 2019, Mr. FA Chew was deemed to be interested in 709,591 Lai Fung Shares by virtue of his 100% shareholding interest in the said company.*

Save as disclosed above, as at 31 July 2019, none of the Directors and the chief executive of the Company and their respective close associates had, or was deemed to have, any interest in the long or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or recorded in the Register of Directors and Chief Executive pursuant to Section 352 of the SFO; or notified to the Company and the Stock Exchange under the Securities Code or otherwise known by the Directors.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 July 2019, so far as it is known by or otherwise notified by any Director or the chief executive of the Company, the particulars of the corporations or individuals, who had 5% or more interests in the following long positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO ("**Register of Shareholders**") or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company ("**Voting Entitlements**") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

	Long positions in the Shares and underlying Shares		
Name	**Capacity**	**Number of Shares and underlying Shares held**	**Approximate Percentage of total issued Shares** *(Note 1)*
Substantial Shareholders			
Lai Sun Development Company Limited *(Note 2)*	Owner of controlled corporation	1,113,260,072	74.62% *(Note 4)*
Lai Sun Garment (International) Limited *(Note 3)*	Owner of controlled corporations	1,113,260,072	74.62% *(Note 4)*
Dr. Lam Kin Ngok, Peter	Beneficial owner and owner of controlled corporations	1,116,054,515	74.81% *(Note 4)*
Other Persons			
Mr. Yu Cheuk Yi	Beneficial Owner	149,080,000	9.99% *(Note 5)*
Ms. Yu Siu Yuk	Beneficial Owner	149,080,000	9.99% *(Note 5)*

Notes:

1. *The total number of issued Shares as at 31 July 2019 (1,491,854,598 Shares) has been used in the calculation of the approximate percentage.*

2. *As at 31 July 2019 Mr. FA Chew and Mr. Lester Lam, both Executive Directors, were also executive directors of LSD. Madam U, a NED, was also a non-executive director of LSD.*

3. *As at 31 July 2019 Mr. FA Chew and Mr. Lester Lam, both Executive Directors, and Madam U, a NED, were also executive directors of LSG. Mr. CT Yip, an Executive Director, was also the chief executive officer of LSG.*

4. *These interests in the Company represented all the Shares beneficially owned by Transtrend Holdings Limited, an indirect wholly-owned subsidiary of LSD. As at 31 July 2019, LSG and Dr. Peter Lam were deemed to be interested in the same 1,113,260,072 Shares (approximately 74.62% of the total issued Shares) indirectly owned by LSD by virtue of his personal and deemed interests of approximately 41.96% (excluding share option) of the total issued LSG Shares; LSD was approximately 56.07% directly and indirectly owned by LSG; and LSG was approximately 12.52% (excluding share option) owned by Dr. Peter Lam and approximately 29.44% owned by Wisdoman Limited, which in turn 100% beneficially owned by Dr. Peter Lam.*

   As at 31 July 2019, Dr. Peter Lam also holds 2,794,443 Shares as beneficial owner.

5. *Based on the disclosure of interests notices received by the Company, as at 31 July 2019, Mr. Yu Cheuk Yi and Ms. Yu Siu Yuk ("**YUs**") were both taken to be interested in the same 149,080,000 Shares (approximately 9.99% of the total issued Shares), which were held jointly by them. As at the date of this Report, YUs were interested in 148,982,000 Shares (approximately 9.99% of the total issued Shares).*

Save as disclosed above, the Directors are not aware of any other corporation or individual (other than a Director or the chief executive of the Company) which/who, as at 31 July 2019, had the Voting Entitlements or 5% or more interests or short positions in the Shares or underlying Shares as recorded in the Register of Shareholders.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 5 the Financial Statements and the sections headed *"Connected Transactions"* and *"Continuing Connected Transactions"* of this Report below, at no time during the Year had the Company or any of its subsidiaries, and the controlling shareholder (as defined in the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

CONNECTED TRANSACTIONS

The Company had the following connected transactions during the Year:

1. Acquisition of 10% Interests in Intercontinental Group Holdings Limited

On 28 November 2018, a share sale and purchase agreement ("**Sale and Purchase Agreement**") was entered into between the Company as buyer and Lai's Holdings Limited as seller ("**Seller**"), pursuant to which the Company purchased 5,000 issued shares of US$1.00 each in the share capital of Intercontinental Group Holdings Limited ("**IGHL**", a then 85%-owned subsidiary of the Company), representing 10% of the total issued shares of IGHL, at a total consideration of HK$37,500,000 subject to the terms and conditions set out in the Sale and Purchase Agreement ("**Acquisition**"). After the completion of the Acquisition, IGHL is held as to 95% by the Company and 5% by the Seller.

The Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules as the Seller was a substantial shareholder of IGHL which was a non-wholly-owned subsidiary of the Company and hence a connected person of the Company under the Listing Rules. The Acquisition also constituted a connected transaction for each of LSG and LSD under Rule 14A.25 of the Listing Rules since it involves connected person at the subsidiary level.

The details of the Acquisition are set out in the joint announcement dated 28 November 2018 published by the Company, LSD and LSG.

2. 2019 Supplemental Deed

On 8 March 2019, Lai Fung executed a 2019 supplemental deed in favour of LSD, LSG and the Lim Family in relation to certain amendments to the existing non-competition undertakings ("**2019 Supplemental Deed**"). Details of which are set out in the joint announcement dated 8 March 2019 published by LSG, LSD, the Company and Lai Fung, and the circular of the Company dated 19 March 2019.

As each of LSG, LSD and the Lim Family is the controlling shareholder of Lai Fung, each of them is a connected person of Lai Fung, and Lai Fung is an indirect non-wholly-owned subsidiary of the Company, the execution of the 2019 Supplemental Deed by Lai Fung constituted a connected transaction of each of LSG, LSD, the Company and Lai Fung, and the Company was therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The 2019 Supplemental Deed had been approved, confirmed and ratified by the independent shareholders of each of LSG, LSD, the Company and Lai Fung at their respective general meetings held on 30 April 2019.

3. Disposal of 20% Interest in Rosy Commerce Holdings Limited

On 23 July 2019, a share sale and purchase agreement ("**Agreement**") entered into between Sunny Horizon Investments Limited (an indirect wholly-owned subsidiary of the Company) as seller and LSD (or its nominee) as buyer, pursuant to which LSD purchased 20 shares of US$1.00 each in the share capital of Rosy Commerce Holdings Limited ("**Rosy Commerce**", an indirectly non-wholly-owned subsidiary held as to 80% by Lai Fung and 20% by the Company) at a total consideration of HK$557.25 million subject to the terms and conditions set out in the Agreement ("**Disposal**"). Upon the completion of the Disposal, Rosy Commerce would be held as to 80% by Lai Fung and 20% by LSD.

The Disposal constituted a major transaction for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. In addition, LSD is the intermediate holding company of the Company and hence a connected person of the Company under the Listing Rules, the Disposal and the transactions contemplated thereunder ("**Transaction**") constituted a connected transaction for the Company and was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The details of the Disposal and the Transaction are set out in the joint announcement dated 23 July 2019 published by LSG, LSD and the Company, and the circular of the Company dated 30 August 2019.

The Agreement and Transaction had been approved, confirmed and ratified by the independent shareholders of the Company at its special general meeting held on 20 September 2019 and the completion of the Transaction took place on 24 September 2019 after the satisfaction of all conditions set out in the Agreement on 20 September 2019 ("**Completion**").

CONTINUING CONNECTED TRANSACTIONS

The Company had certain continuing connected transactions ("**CCTs**") (as defined in the Listing Rules) during the Year, brief particulars of which are as follows:

1. Letting and/or Licensing of Premises – Memorandum of Agreement of the Lai Sun Group

On 31 July 2017, members of the Lai Sun Group, namely LSG (LSG and its subsidiaries, "**LSG Group**"), LSD (LSD and its subsidiaries, "**LSD Group**"), Lai Fung (Lai Fung and its subsidiaries, "**Lai Fung Group**"), MAGHL (MAGHL and its subsidiaries, "**MAGHL Group**") and the Company entered into a new memorandum of agreement ("**Renewal Agreement**") to renew the memorandum of agreement dated 14 February 2014 in relation to all existing or future transactions with regard to the letting and/or licensing of various premises owned or held by other members of the Lai Sun Group ("**Lease Transactions**").

The Renewal Agreement is for a period of three years commenced on 1 August 2017 and expiring on 31 July 2020. In summary, the terms and conditions of the Renewal Agreement are:

(i) each relevant Lease Transaction shall be governed by a written agreement on normal commercial terms;

(ii) the rental or fees payable and/or receivable shall be fixed by reference to the prevailing market or comparable rental or fees, including property management fees;

(iii) LSG may in accordance with the requirements of the Listing Rules, determine for itself such maximum annual aggregate amount payable and/or receivable by the LSG Group for all subsisting Lease Transactions which may constitute CCTs of LSG;

(iv) LSD may in accordance with the requirements of the Listing Rules, determine for itself such maximum annual aggregate amount payable and/or receivable by the LSD Group for all subsisting Lease Transactions with the LSG Group (excluding LSD Group) which may constitute CCTs of LSD;

(v) the Company may in accordance with the requirements of the Listing Rules, determine for itself such maximum annual aggregate amount payable and/or receivable by the Group for all subsisting Lease Transactions with the LSG Group and the LSD Group which may constitute CCTs of the Company;

(vi) Lai Fung may in accordance with the requirements of the Listing Rules, determine for itself such maximum annual aggregate amount payable and/or receivable by the Lai Fung Group for all subsisting Lease Transactions with each of (1) the LSG Group and the LSD Group and/or (2) the Group (excluding the Lai Fung Group) which may constitute CCTs of Lai Fung; and

(vii) MAGHL may in accordance with the requirements of the GEM Listing Rules, determine for itself such maximum annual aggregate amount payable and/or receivable by the MAGHL Group for all subsisting Lease Transactions with each of (1) the LSG Group and the LSD Group and/or (2) the Group (excluding the MAGHL Group) which may constitute CCTs of MAGHL.

As at the date of signing the Renewal Agreement, LSG was the ultimate holding company of LSD, which in turn was the controlling shareholder of the Company while Lai Fung and MAGHL were the subsidiaries of the Company. Therefore, the transactions contemplated under the Renewal Agreement constitute CCTs for each of the Company, Lai Fung and MAGHL. The Company has adopted an annual cap amount of HK$25,700,000, HK$26,400,000 and HK$28,600,000 for the year ended 31 July 2018, the Year and the financial year ending 31 July 2020 in respect of its Lease transactions with the LSG Group and LSD Group. Details of the Renewal Agreement and the Lease Transactions are set out in the joint announcement dated 31 July 2017 published by the Company, LSG, LSD, Lai Fung and MAGHL.

For the Year, rental and management fee received or receivable from, and rental and management fee paid or payable to the LSG Group and the LSD Group amounted to HK$369,000 and HK$17,693,000, respectively.

2. Ascott Management Agreement

The Company and Lai Fung jointly announced on 24 May 2013 that two pre-existing agreements entered into by Lai Fung on 5 May 2009 relating to Ascott Management Agreement (as defined below) and on 16 April 2010 regarding the Breakfast Agreement (already expired on 31 August 2013), respectively had subsequently become CCTs of the Company from 30 October 2012 under Chapter 14A of the Listing Rules, as Lai Fung had been consolidated as a subsidiary of the Company from 11 June 2012 due to the adoption of Hong Kong Financial Reporting Standard 10 "*Consolidated Financial Statements*" by the Company during the year ended 31 July 2012.

On 5 May 2009, Shanghai Li Xing Real Estate Development Co., Ltd. ("**Li Xing**", a company established in Mainland China and a 95%-owned subsidiary of Lai Fung as at the date of the announcement) and Ascott Property Management (Shanghai) Co., Ltd. ("**Ascott**", a company established in Mainland China and a wholly-owned subsidiary of CapitaLand Limited (a company established in Singapore, a substantial shareholder and therefore a connected person of Lai Fung under the Listing Rules)) entered into an agreement ("**Ascott Management Agreement**") in relation to Ascott's provision of management services to Li Xing for certain units of a serviced apartment tower owned by the Lai Fung Group and situated at 282 Huaihaizhong Road, Huangpu District, Shanghai, the People's Republic of China. Transactions contemplated under the Ascott Management Agreement constitute CCTs of Lai Fung and CCTs of the Company (as the ultimate holding company of Lai Fung). The Ascott Management Agreement covers an initial term of 10 years from 1 May 2010 and is renewable for two successive terms of five years at the option of Ascott and subject to the agreement of Li Xing. Further details of the said agreement can be found in Lai Fung's announcement dated 5 May 2009.

The board of directors of Lai Fung expected that the total fees payable by Li Xing to Ascott during the initial term of the Ascott Management Agreement would not exceed RMB19 million per annum. For the Year, total fees paid or payable to Ascott amounted to RMB7,883,000 (approximately HK$9,039,000).

3. Licence Arrangement – The Receipt of Service Fee

On 6 December 2017, Marvel Day Ventures Limited ("**Marvel Day**", an indirect non-wholly-owned subsidiary of the Company) and Cosmic Dragon Limited ("**Cosmic Dragon**", an indirect non-wholly-owned subsidiary of LSD) entered into the shareholders agreement ("**Shareholders Agreement**"), pursuant to which the parties agreed to form Love Grubers Limited ("**Love Grubers**", currently known as Hazelway Holding Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Marvel Day and 50% by Cosmic Dragon), to incorporate a wholly-owned subsidiary, Grubers Telford Limited ("**GTL**", currently known as Hazelway Limited, a company incorporated in Hong Kong with limited liability), for the purpose of operating a cafe ("**Cafe**") within the premises of MCL Telford Cinema located at Level 2 (Portion) and Level 3, Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, (New Kowloon Inland Lot No. 5744), Kowloon, Hong Kong ("**Telford Premises**"). Details of the Shareholders Agreement are set out in the Company's announcement dated 6 December 2017 ("**CT Announcement**").

The Shareholders Agreement contemplates Love Grubers entering into a licence arrangement concerning the space for the Cafe from Multiplex Cinema Limited ("**MCL**", an indirect non-wholly-owned subsidiary of the Company).

Love Grubers is an investment holding company which owns all the shares of GTL, and GTL is operating the Cafe within the Telford Premises. Marvel Day had obtained consent from MCL to use a space of approximately 1,250 square feet exclusively for the Cafe plus additional space to be shared with, and at the discretion of, MCL for a term commenced on 6 December 2017 and expiring on 30 September 2024 ("**Licence Arrangement**").

Pursuant to the Shareholders Agreement, GTL shall pay to MCL a monthly service fee of the higher of (i) HK$138,000 per month or (ii) 10% of the Cafe's monthly gross revenue from 6 December 2017 to 30 September 2019 and 12% of the Cafe's monthly gross revenue from 1 October 2019 to 30 September 2024 ("**Service Fee**"), but the Service Fee from 6 December 2017 to 31 December 2017 had been waived.

As the Licence Arrangement contemplated under the Shareholders Agreement is a new continuing connected transaction with LSD Group, no historical data is available for reference as far as the determination of the proposed annual caps for each of the financial years ending 31 July 2025 in respect of the Licence Arrangement contemplated under the Shareholders Agreement is concerned.

Based on the Service Fee in respect of the Licence Arrangement, the Company expected the amount payable by GTL to MCL for each of the financial years of the Company ending 31 July 2025 to be no more than HK$2,400,000.

GTL is a wholly-owned subsidiary of Love Grubers which is an associate of LSD. GTL is therefore deemed as an associate (as defined in Chapter 14A of the Listing Rules) of the controlling shareholder of the Company as at the date of the CT Announcement, and hence a connected person of the Company. MCL is an indirect non-wholly-owned subsidiary of the Company. Accordingly, the Licence Arrangement contemplated under the Shareholders Agreement between GTL and MCL constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

For the Year, total Service Fee received or receivable by MCL amounted to HK$1,656,000.

The CCTs listed above have been reviewed by all INEDs who have confirmed that the transactions had been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Ernst & Young, Certified Public Accountants ("**Ernst & Young**"), being the Company's independent auditor, were engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *"Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"* and with reference to Practice Note 740 *"Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules"* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the CCTs listed above to the Board in accordance with Rule 14A.56 of the Listing Rules confirming that nothing has come to their attention that causes them to believe the CCTs:

(i) have not been approved by the Board;

(ii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iii) have exceeded the annual caps as set by the Company.

A copy of their letter has been provided by the Company to the Stock Exchange.

Moreover, during the Year, there were sharing of corporate salaries and administrative expenses on a cost basis allocated from and to the LSG Group and the LSD Group. These CCTs are exempt from announcement, reporting and shareholders' approval requirements pursuant to Rule 14A.98 of the Listing Rules.

Continuing Connected Transactions after the Reporting Period

1. Financial Assistance

Prior to the Disposal as mentioned under the section headed "*Connected Transactions*", there were existing banking facilities obtained by Rosy Commerce and its subsidiaries ("**Target Group**") and the Company had provided the guarantees of approximately HK$507.3 million in favour of the lending banks ("**Guarantees**").

Such facilities were obtained to support the operations of the Target Group, and it is the agreement between the Company and LSD that such facilities be maintained after the Completion. Upon enquiry by Rosy Commerce with the banks, the banks would require a long period of time to review and approve the release of the Guarantees, and therefore it is expected that the Guarantees could not be released immediately upon Completion. As such, the Company and LSD agreed that the Guarantees will continue to take effect after Completion in order to maintain the facilities. LSD is the intermediate holding company of the Company and hence a connected person of the Company under the Listing Rules. Upon Completion, the Target Group became connected subsidiaries of the Company under Rule 14A.16 of the Listing Rules and thereby a connected person of the Company. Upon Completion, the Guarantees to the Target Group has become a financial assistance of the Company to the Target Group and constituted a CCT of the Company under Chapter 14A of the Listing Rules.

2. Property Management Services Agreements and Cost-sharing Agreements

Reference is made to the announcements of Lai Fung dated 16 July 2019 ("**Lai Fung Announcement**") and 23 July 2019 regarding Lai Fung's continuing connected transactions under the Property Management Services Agreements and the Cost-sharing Agreements.

The Property Management Services Agreements include the following:

(i) 珠海橫琴創新方商業管理有限公司 (Zhuhai Hengqin Novotown Business Management Co., Ltd.*) ("**Novotown Business Management**") and 珠海橫琴創新方文化創意有限公司 (Zhuhai Hengqin Novotown Creative Culture Co., Ltd.*) ("**Novotown Creative Culture**") entered into an agreement on 16 July 2019, pursuant to which Novotown Business Management would provide property management services to Novotown Creative Culture from 1 September 2019 to 31 August 2022;

(ii) Novotown Business Management and 珠海橫琴創新方娛樂有限公司 (Zhuhai Hengqin Novotown Entertainment Co., Ltd.*) ("**Novotown Entertainment**") entered into an agreement on 16 July 2019, pursuant to which Novotown Business Management would provide property management services to Novotown Entertainment from 1 August 2019 to 31 July 2022; and

(iii) Novotown Business Management and 珠海橫琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.*) ("**Laisun Creative Culture**") entered into an agreement on 23 July 2019, pursuant to which Novotown Business Management would provide property management services to Laisun Creative Culture from 1 October 2019 to 30 September 2022.

The Cost-sharing Agreements include the following:

(i) Novotown Business Management and Laisun Creative Culture entered into an agreement on 16 July 2019, pursuant to which Novotown Business Management and Laisun Creative Culture would share the costs and expenses in connection with the use of the Head Lease Premises (as defined in Lai Fung Announcement) as staff quarter on a cost basis from 1 September 2019 to 30 April 2021;

* *For identification purposes only*

(ii) Novotown Business Management and Novotown Creative Culture entered into an agreement on 16 July 2019, pursuant to which Novotown Business Management and Novotown Creative Culture would share the costs and expenses in connection with the use of the Head Lease Premises (as defined in Lai Fung Announcement) as staff quarter on a cost basis from 1 September 2019 to 30 April 2021; and

(iii) Novotown Business Management and Novotown Entertainment entered into an agreement on 16 July 2019, pursuant to which Novotown Business Management and Novotown Entertainment would share the costs and expenses in connection with the use of the Head Lease Premises (as defined in Lai Fung Announcement) as staff quarter on a cost basis from 1 September 2019 to 30 April 2021.

LSD is the intermediate holding company of the Company and hence a connected person of the Company under the Listing Rules. Upon Completion, each of Laisun Creative Culture, Novotown Creative Culture and Novotown Entertainment became a connected subsidiary of the Company pursuant to Rule 14A.16(2) of the Listing Rules by virtue of their being indirect subsidiaries of Rosy Commerce, which is in turn a connected subsidiary of the Company controlled as to 20% by LSD (or its nominee). As such Laisun Creative Culture, Novotown Creative Culture and Novotown Entertainment became connected persons of the Company. Novotown Business Management is an indirect non-wholly-owned subsidiary of the Company. Accordingly, each of the Property Management Services Agreements and the Cost-sharing Agreements constituted a CCT of the Company under Chapter 14A of the Listing Rules upon Completion.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business of the Group for the Year are provided under note 5 to the Financial Statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 38 to the Financial Statements.

GUARANTEED NOTES

Details of the guaranteed notes issued by the Group are set out in note 34 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 July 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) ("**Companies Act**"), comprised accumulated loss of HK$162,283,000 and contributed surplus of HK$845,455,000.

Under the Companies Act, the Company's contributed surplus is available for distribution to the Shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate amount of its liabilities and its issued share capital and share premium account.

In addition, the Company's share premium account, in the amount of HK$4,257,351,000 may be applied to pay up unissued shares to be issued to members of the Company as fully paid bonus shares.

SUFFICIENCY OF PUBLIC FLOAT

During the periods from 22 August 2018 to 10 February 2019 and from 16 September to 25 September 2019, the public float of the Company was below 25% of the total issued share capital of the Company as prescribed by Rule 8.08(1)(a) of the Listing Rules.

As disclosed in the Closing Announcement, immediately following the close of the eSun Offers, 331,855,640 Shares are held by the public (within the meaning of the Listing Rules), representing approximately 22.24% of the total issued Shares as at the date of the Closing Announcement. Accordingly, the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was not satisfied. Reference is made to the Company's announcement dated 31 August 2018, the Company has made an application to the Stock Exchange for and the Stock Exchange has granted, a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period commenced from 22 August 2018 to 25 January 2019 to allow the Offeror a reasonable time to restore the public float of the Company.

As announced by the Company on 11 February 2019, the Offeror has completed, on 11 February 2019, the sale of an aggregate of 41,150,000 Shares ("**Shares Disposal**"), representing approximately 2.76% of the total issued Shares, to an independent third party. Following the completion of the Shares Disposal, a total of 373,005,640 Shares (representing approximately 25.003% of the total issued Shares) were held by the public. Accordingly, the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules has been restored.

As disclosed in the Company's announcement dated 17 September 2019, the shortfall in the public float of the Company was due to the purchase of 902,000 Shares by YUs on 16 September 2019. As YUs held an aggregate of 149,982,000 Shares (representing approximately 10.05% of the total issued Shares), YUs have become substantial shareholders of the Company and the Shares held by YUs were excluded for the public float of the Company.

Upon completion of YUs' disposal of an aggregate of 1,000,000 Shares to an independent third party on 25 September 2019, a total of 373,005,640 Shares, representing approximately 25.003% of the total issued Shares were held by the public. Accordingly, the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules has been restored. Details of which are set in the announcements of the Company dated 17 September 2019 and 26 September 2019.

Save as disclosed above, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Report, the Company has maintained sufficient public float exceeding 25% of its issued share capital throughout the Year and up to the date of this Report.

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the Laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

DONATIONS FOR CHARITABLE AND OTHER PURPOSES

During the Year, the Group made contributions for charitable or other purposes totalling HK$4,675,000 (2018: HK$4,045,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the Year.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (whom to the best knowledge and belief of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers for the Year.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 30 October 2018, an indirect non-wholly-owned subsidiary of the Company, as borrower, entered into a facility agreement pursuant to which a 5-year term loan facility of an amount up to HK$700,000,000 was granted to the borrower. The facility agreement was amended on 22 October 2019, pursuant to which LSD shall maintain its 20% direct or indirect holding interest (excluding the portion indirectly held through the Company) in the borrower. Upon a breach of this covenant, the lender may, inter alia, declare that the outstanding liability under the facility becomes immediately due.

BANK LOANS AND OTHER BORROWINGS

Details of the Company's bank loans and other borrowings as at 31 July 2019 are set out in notes 31 and 32 to the Financial Statements, respectively.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out in the section headed "*Financial Summary and Highlights*" on pages 12 to 15 of this Annual Report. This summary does not form part of the Financial Statements.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report of this Annual Report on pages 49 to 63.

EQUITY-LINK AGREEMENT

For the Year, the Company has not entered into any equity-link agreement, save for options to be granted under the above section of "*Share Option Schemes*" of this Report.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in the note 52 to the Financial Statements, the Group did not have any material subsequent event after the reporting period and up to the date of this Report.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") currently comprises three INEDs, namely Dr. Ng Lai Man, Carmen (Chairwoman), Mr. Low Chee Keong and Mr. Alfred Donald Yap. The Audit Committee has reviewed with the management of the Company the audited Financial Statements.

INDEPENDENT AUDITOR

The Financial Statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for reappointment at the forthcoming AGM. Having approved by the Board upon the Audit Committee' recommendation, a resolution for the re-appointment of Ernst & Young as the independent auditor of the Company for the ensuing year will be put to the forthcoming AGM for Shareholders' approval.

On behalf of the Board

Low Chee Keong
Chairman
Hong Kong
22 October 2019

SHAREHOLDERS' INFORMATION

TAXATION OF HOLDERS OF SHARES

(a) Hong Kong

The purchase, sale and transfer of shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller (or transferee and transferor) is 0.1% of the consideration or, if greater, the fair value of the shares being bought/sold or transferred (rounded up to the nearest HK$'000). In addition, a fixed duty of HK$5.00 is currently payable on an instrument of transfer of shares.

Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Bermuda

Under the present Bermuda laws, transfers and other dispositions of shares in the Company are exempt from Bermuda stamp duty.

(c) Consultation with professional advisers

Intending holders and investors of the Company's shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in shares. It is emphasised that none of the Company or its Directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of shares in the Company resulting from their subscription for, purchase, holding, disposal of or dealing in such shares.

KEY DATES

Shareholders and investors are advised to note the following key dates of the Company and take appropriate action:

	For Financial Year 2018/2019
Annual results announcement for the year ended 31 July 2019	22 October 2019
Latest time and date to lodge transfer documents with the Hong Kong branch share registrar for entitlement to attending and voting at the 2019 annual general meeting ("**AGM**")	4:30 p.m. on 16 December 2019
2019 AGM	10:00 a.m. on 20 December 2019

	For Financial Year 2019/2020
Interim results announcement for the six months ending 31 January 2020	on or before 31 March 2020
Annual results announcement for the year ending 31 July 2020	on or before 31 October 2020
2020 AGM	December 2020

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the shareholders of eSun Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of eSun Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 100 to 236, which comprise the consolidated statement of financial position as at 31 July 2019, and the consolidated income statement, the consolidated statement of 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 31 July 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Estimation of fair value of investment properties	
The Group's investment properties measured at fair value amounted to HK$19,422 million as at 31 July 2019. Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period. The related disclosures are included in notes 2, 3 and 14 to the financial statements.	We evaluated the objectivity, independence and competency of the external valuer. We also involved our internal valuation specialists to assist us to evaluate the valuation techniques and assumptions used. We also tested the underlying key estimations and assumptions for selected samples through enquiry with management and by reference to the historical and open market information.
Land appreciation tax in Mainland China	
The Group is subject to land appreciation tax ("**LAT**") in respect of the Group's property development projects in Mainland China. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. Significant management's judgement and estimations are required in determining the LAT provision for these projects. Changes in assumptions about the decisions that might be taken by the relevant tax authorities can materially impact the level of LAT provision recorded in the financial statements. The final outcome could be different from the amounts that were initially recorded. The related disclosures are included in notes 2, 3 and 10 to the financial statements.	We involved our internal tax specialists to assist us in the assessment of the LAT calculation prepared by management, including analysing and evaluating the estimates and assumptions used by management as well as the adequacy and completeness of the LAT provision.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of film rights, film products and films under production	
As at 31 July 2019, the Group had films under production, film rights and film products of approximately HK$409 million, HK$25 million and HK$75 million, respectively. The assessment of whether there is any impairment of films under production, film rights and film products requires significant accounting judgements and estimates and is directly affected by, among others, management's estimates of the costs to be incurred to complete production, projected revenues and related future cash flows of the relevant asset, as appropriate, as further detailed in note 3 to the financial statements. Based on both internal and external market information available on the films under production, film rights and film products, management reviews and revises the estimated costs to be incurred to complete production, projected revenues and related future cash flows of the relevant asset, as appropriate, to assess whether there are any indicators of impairment or reversal of impairment at least at the end of each reporting period. Any change in estimations may result in a change in the impairment of the assets. This could have an impact on the Group's financial performance. The related disclosures are included in notes 2, 3, 15, 16 and 24 to the financial statements.	We evaluated management's impairment assessment for film rights, film products and films under production at 31 July 2019, including the identification of any indicators of impairment or reversal of impairment. We assessed the methodology used by management in determining the recoverable amounts of film rights, film products and films under production. We reviewed management's analysis of the main artistes and directors' recent works of films, the production plan of the films and/or other relevant information. We also evaluated management's target market and business plan with reference to market situation. We assessed management's processes and assumptions for estimating the recoverable amounts of the relevant film rights, film products and films under production by evaluating, among others, management's judgements and assumptions for estimating costs to be incurred to complete production, projected revenues and related future cash flows of the relevant asset, as appropriate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

We communicate with the Audit Committee 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 the Audit Committee 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.

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Chung Yuk Man.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

22 October 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 July 2019

	Notes	2019 HK$'000	2018 HK$'000
TURNOVER	6	**2,903,362**	2,183,863
Cost of sales		**(1,528,418)**	(1,170,479)
Gross profit		**1,374,944**	1,013,384
Other revenue	6	**100,932**	247,475
Selling and marketing expenses		**(91,837)**	(153,458)
Administrative expenses		**(588,348)**	(681,328)
Other operating expenses, net		**(490,865)**	(515,893)
Fair value gains on investment properties	14	**211,500**	857,297
PROFIT FROM OPERATING ACTIVITIES		**516,326**	767,477
Finance costs	8	**(160,617)**	(240,612)
Share of profits and losses of joint ventures		**(25,424)**	402,888
Share of profits and losses of associates		**787**	(14,102)
PROFIT BEFORE TAX AND TAX INDEMNITY	7	**331,072**	915,651
Income tax expense	10	**(312,967)**	(334,929)
Tax indemnity	10	**–**	92,695
PROFIT FOR THE YEAR		**18,105**	673,417
Attributable to:			
Owners of the Company		**(77,645)**	263,840
Non-controlling interests		**95,750**	409,577
		18,105	673,417
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic		**(HK$0.052)**	HK$0.177
Diluted		**(HK$0.052)**	HK$0.175

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 July 2019

	Notes	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR		**18,105**	673,417
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX			
Items that may be subsequently reclassified to the income statement:			
Exchange realignment on translation of foreign operations		**(277,434)**	(209,229)
Share of other comprehensive income/(loss) of joint ventures		**10,912**	(7,964)
Share of other comprehensive loss of associates		**(20)**	(15)
Release of exchange reserve upon winding-up and disposal of subsidiaries		**(10,636)**	(880)
Release of reserve upon maturity of cross currency swaps	35	**–**	(35,055)
Change in fair value of an available-for-sale investment	22	**–**	(14,677)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	35	**–**	161,845
Reclassification adjustments for exchange loss included in the consolidated income statement	35	**–**	(134,959)
		–	26,886
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(277,178)**	(240,934)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(259,073)**	432,483
Attributable to:			
Owners of the Company		**(222,600)**	129,523
Non-controlling interests		**(36,473)**	302,960
		(259,073)	432,483

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 July 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**4,931,149**	3,790,965
Properties under development	13	**713,590**	410,157
Investment properties	14	**20,424,800**	18,601,100
Film rights	15	**24,608**	11,205
Film products	16	**75,022**	80,217
Music catalogs	17	**15,629**	9,657
Goodwill	18	**82,440**	82,440
Other intangible assets	19	**–**	586
Investments in joint ventures	20	**22,993**	1,868,316
Investments in associates	21	**5,804**	16,278
Available-for-sale investments	22	**–**	114,361
Financial assets at fair value through profit or loss	22	**75,815**	–
Deposits, prepayments and other receivables	23	**96,237**	120,116
Deferred tax assets	37	**9,108**	4,189
Derivative financial instruments	35	**20,581**	2,531
Total non-current assets		**26,497,776**	25,112,118
CURRENT ASSETS			
Properties under development	13	**1,815,822**	1,722,872
Completed properties for sale		**966,132**	852,588
Films under production and film investments	24	**417,242**	469,585
Inventories		**19,031**	21,874
Debtors	25	**232,507**	181,599
Financial assets at fair value through profit or loss	22	**144,936**	–
Deposits, prepayments and other receivables	23	**637,799**	441,526
Prepaid tax		**42,031**	37,856
Pledged and restricted time deposits and bank balances	26	**1,173,895**	1,073,762
Cash and cash equivalents	26	**2,598,020**	2,136,039
		8,047,415	6,937,701
Assets classified as held for sale	27	**68,186**	–
Total current assets		**8,115,601**	6,937,701
CURRENT LIABILITIES			
Creditors and accruals	28	**2,577,378**	1,961,568
Deposits received, deferred income and contract liabilities	30	**875,415**	658,487
Tax payable		**170,344**	123,973
Interest-bearing bank loans	31	**535,980**	348,489
Other borrowings	32	**41,440**	–
Loans from a fellow subsidiary	36	**900,000**	–
Loans from a joint venture	20	**–**	218,542
Total current liabilities		**5,100,557**	3,311,059
NET CURRENT ASSETS		**3,015,044**	3,626,642
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,512,820**	28,738,760

	Notes	2019 HK$'000	2018 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,512,820**	28,738,760
NON-CURRENT LIABILITIES			
Long-term deposits received	30	**147,876**	142,880
Interest-bearing bank loans	31	**5,554,150**	3,572,464
Other borrowings	32	**262,894**	257,841
Guaranteed notes	34	**2,720,857**	2,725,518
Loans from a joint venture	20	**–**	426,156
Loans from a related company	36	**–**	650,000
Loans from a fellow subsidiary	36	**50,000**	–
Deferred tax liabilities	37	**3,351,747**	3,318,953
Total non-current liabilities		**12,087,524**	11,093,812
Net assets		**17,425,296**	17,644,948
EQUITY			
Equity attributable to owners of the Company			
Issued capital	38	**745,927**	745,927
Reserves	40	**8,352,694**	8,513,538
		9,098,621	9,259,465
Non-controlling interests		**8,326,675**	8,385,483
Total equity		**17,425,296**	17,644,948

Low Chee Keong
Director

Lui Siu Tsuen, Richard
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 July 2019

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (Note 1)	Share option reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 July 2018, as previously reported		745,927	4,257,351	891,289	15,054	2,499	(677,122)	540,566	137,840	3,346,061	9,259,465	8,385,483	17,644,948
Initial application of HKFRS 9 (Note 2.2)		–	–	–	–	(2,499)	–	–	–	101,364	98,865	–	98,865
At 1 August 2018, as adjusted		745,927	4,257,351	891,289	15,054	–	(677,122)	540,566	137,840	3,447,425	9,358,330	8,385,483	17,743,813
Profit/(loss) for the year		–	–	–	–	–	–	–	–	(77,645)	(77,645)	95,750	18,105
Other comprehensive income/(loss) for the year, net of tax:													
Exchange realignment on translation of foreign operations		–	–	–	–	–	(145,130)	–	–	–	(145,130)	(132,304)	(277,434)
Share of other comprehensive income of joint ventures		–	–	–	–	–	5,570	–	–	–	5,570	5,342	10,912
Share of other comprehensive loss of associates		–	–	–	–	–	(10)	–	–	–	(10)	(10)	(20)
Release of exchange reserve upon winding-up and disposal of subsidiaries		–	–	–	–	–	(5,385)	–	–	–	(5,385)	(5,251)	(10,636)
Total comprehensive loss for the year		–	–	–	–	–	(144,955)	–	–	(77,645)	(222,600)	(36,473)	(259,073)
Capital contributions from non-controlling shareholders of a subsidiary		–	–	–	–	–	–	–	–	–	–	858	858
Share issued by a subsidiary in lieu of cash dividend	51(b)	–	–	–	–	–	–	(8,257)	–	–	(8,257)	11,482	3,225
Release of reserve upon cancellation and lapse of share options		–	–	–	(15,054)	–	–	–	–	15,054	–	–	–
Equity-settled share option arrangements of a subsidiary		–	–	–	–	–	–	–	–	–	–	2,322	2,322
Acquisition of additional interests in a subsidiary	51(a)	–	–	–	–	–	–	(28,852)	–	–	(28,852)	(8,648)	(37,500)
Disposal of subsidiaries	42	–	–	–	–	–	–	–	–	–	–	3,963	3,963
Transfer to statutory reserve		–	–	–	–	–	–	–	3,098	(3,098)	–	–	–
Reserve realised upon winding-up of a joint venture		–	–	–	–	–	–	–	(69,114)	69,114	–	–	–
Dividend paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	(32,312)	(32,312)
At 31 July 2019		**745,927**	**4,257,351***	**891,289***	**–***	**–***	**(822,077)***	**503,457***	**71,824***	**3,450,850***	**9,098,621**	**8,326,675**	**17,425,296**

* *These reserve accounts comprise the consolidated reserves of HK$8,352,694,000 (2018: HK$8,513,538,000) in the consolidated statement of financial position.*

Notes:

1. *The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.*

2. *No dividend was paid or proposed during the year ended 31 July 2019 (2018: Nil), nor has any dividend been proposed since the end of the reporting period.*

		Attributable to owners of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (Note 1)	Share option reserve HK$'000	Investment revaluation reserve HK$'000	Hedge reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Statutory reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 August 2017		745,927	4,257,351	891,289	15,293	17,176	5,373	(561,572)	574,951	115,261	3,057,151	9,118,200	8,104,670	17,222,870
Profit for the year		–	–	–	–	–	–	–	–	–	263,840	263,840	409,577	673,417
Other comprehensive income/(loss) for the year, net of tax:														
Exchange realignment on translation of foreign operations		–	–	–	–	–	–	(110,838)	–	–	–	(110,838)	(98,391)	(209,229)
Release of exchange reserve upon disposal of subsidiaries	42	–	–	–	–	–	–	(880)	–	–	–	(880)	–	(880)
Change in fair value of an available-for-sale investment		–	–	–	–	(14,677)	–	–	–	–	–	(14,677)	–	(14,677)
Share of other comprehensive loss of joint ventures		–	–	–	–	–	–	(3,824)	–	–	–	(3,824)	(4,140)	(7,964)
Share of other comprehensive loss of an associate		–	–	–	–	–	–	(8)	–	–	–	(8)	(7)	(15)
Net gain on cash flow hedges		–	–	–	–	–	13,648	–	–	–	–	13,648	13,238	26,886
Release of reserve upon maturity of cross currency swaps		–	–	–	–	–	(17,738)	–	–	–	–	(17,738)	(17,317)	(35,055)
Total comprehensive income/(loss) for the year		–	–	–	–	(14,677)	(4,090)	(115,550)	–	–	263,840	129,523	302,960	432,483
Capital contributions from non-controlling shareholders of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	2,362	2,362
Release of reserve upon lapse of share options		–	–	–	(477)	–	–	–	–	–	563	86	(86)	–
Equity-settled share option arrangements of a subsidiary		–	–	–	238	–	–	–	–	–	–	238	2,441	2,679
Redemption of convertible notes by a subsidiary	33	–	–	–	–	–	–	–	–	–	47,086	47,086	(47,086)	–
Shares issued by a subsidiary in lieu of cash dividend	51(b)	–	–	–	–	–	(1,283)	–	(27,979)	–	–	(29,262)	43,395	14,133
Shares issued by a subsidiary upon exercise of share options	51(b)	–	–	–	–	–	–	–	(6,406)	–	–	(6,406)	8,914	2,508
Transfer to statutory reserve		–	–	–	–	–	–	–	–	6,583	(6,583)	–	–	–
Share of statutory reserve of joint ventures		–	–	–	–	–	–	–	–	15,996	(15,996)	–	–	–
Dividend paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(32,087)	(32,087)
At 31 July 2018		745,927	4,257,351*	891,289*	15,054*	2,499*	–*	(677,122)*	540,566*	137,840*	3,346,061*	9,259,465	8,385,483	17,644,948

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 July 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and tax indemnity		**331,072**	915,651
Adjustments for:			
Fair value gains on investment properties	14	**(211,500)**	(857,297)
Fair value gains on cross currency swaps	7	**(18,050)**	(38,049)
Fair value losses on financial assets at fair value through profit or loss	7	**12,758**	–
Finance costs	8	**160,617**	240,612
Share of profits and losses of joint ventures		**25,424**	(402,888)
Share of profits and losses of associates		**(787)**	14,102
Interest income	6	**(29,586)**	(43,385)
Loss on disposal of items of property, plant and equipment	7	**817**	2,347
Gain on disposal of subsidiaries	7	**(4,720)**	(2,487)
Gain on disposal of an associate	7	**(19,705)**	–
Gain on swap of properties	7	**–**	(41,379)
Depreciation	7	**164,807**	178,701
Amortisation of film rights	7	**6,357**	9,755
Amortisation of film products	7	**69,019**	320,773
Amortisation of music catalogs	7	**2,870**	1,781
Amortisation of other intangible assets	7	**586**	15,971
Write-off of items of property, plant and equipment	7	**653**	932
Impairment of property, plant and equipment	7	**40,850**	10,000
Impairment of investment properties under construction at cost	7	**–**	55,658
Write-down of properties under development to net realisable value	7	**–**	38,222
Reversal of write-down of completed properties for sale to net realisable value	7	**–**	(426)
Impairment of films under production	7	**64,310**	5,614
Write-back of impairment of music catalogs	7	**(8,842)**	–
Write-back of impairment of film rights	7	**(18,000)**	–
Impairment of debtors	7	**693**	429
Impairment of advances and other receivables	7	**22,209**	15,924
Write-back of impairment of advances and other receivables	7	**(567)**	(618)
Impairment/(write-back of impairment) of amounts due from joint ventures	7	**1,763**	(172)
Impairment/(write-back of impairment) of inventories	7	**2,480**	(1,680)
Equity-settled share option expenses	7	**2,322**	2,679
Foreign exchange differences, net	7	**5,812**	37,607
		603,662	478,377

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Increase in properties under development		**(703,012)**	(537,140)
Decrease in completed properties for sale		**256,700**	122,365
Decrease in inventories		**363**	2,014
Additions of films under production and film investments	24	**(245,585)**	(292,633)
Additions of film products, net	16	**(2)**	927
Decrease in film products	16	**150,913**	–
Additions of film rights	15	**(1,760)**	–
Decrease/(increase) in debtors		**(51,601)**	20,708
Increase in deposits, prepayments and other receivables		**(213,803)**	(32,578)
Increase in long-term deposits received		**4,996**	4,005
Increase in creditors and accruals		**151,693**	40,987
Increase in deposits received, deferred income and contract liabilities		**216,928**	306,493
Cash generated from operations		**169,492**	113,525
Tax indemnity received	10	**–**	92,695
Hong Kong profits tax paid, net		**(872)**	(2,207)
Mainland China taxes paid, net		**(197,496)**	(78,099)
Net cash flows generated from/(used in) operating activities		**(28,876)**	125,914
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**29,586**	43,385
Additions of investment properties		**(1,621,322)**	(448,080)
Dividend income from joint ventures		**1,604,755**	–
Dividend income from an associate		**3,300**	3,000
Proceeds from disposal of items of property, plant and equipment		**56**	13
Purchases of items of property, plant and equipment		**(1,232,875)**	(673,144)
Capital contributions to joint ventures		**(2,500)**	(4,000)
Advances to joint ventures		**(8,026)**	(32,255)
Capital contribution to associates		**–**	(314)
Advances to associates		**(68)**	(5,486)
Repayment from joint ventures		**217,013**	1,322
Repayment from associates		**4,353**	992
Disposal of an associate		**23,800**	–
Disposal of subsidiaries	42	**(5,372)**	(3,395)
Refund of partial capital of financial assets at fair value through profit or loss/an available-for-sale investment		**492**	10,079
Purchase of financial assets at fair value through profit or loss		**(9,426)**	–
Purchase of an available-for-sale investment		**–**	(15,682)
Increase in pledged and restricted time deposits and bank balances		**(100,133)**	(502,620)
Increase in non-pledged and non-restricted time deposits with original maturity of more than three months when acquired		**(39,309)**	–
Net cash flows used in investing activities		**(1,135,676)**	(1,626,185)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 July 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options of a subsidiary		**–**	2,508
Proceeds from issue of guaranteed notes, net of issue expenses	34	**–**	2,712,758
New bank loans, net of direct costs		**4,410,207**	1,348,018
Repayment of bank loans		**(2,236,895)**	(590,123)
Loans from a joint venture		**462,834**	–
Loans from a fellow subsidiary		**300,000**	–
Loans from a related company		**–**	650,000
Repayments of loans from a joint venture		**(1,095,915)**	(207,929)
Redemption of convertible notes	33	**–**	(196,840)
Repayment of fixed rate senior notes		**–**	(2,243,270)
Increase in other borrowings		**41,560**	–
Increase in put option liabilities		**280,532**	–
Net cash outflow from maturity of cross currency swaps	35	**–**	(45,915)
Interest and bank financing charges paid		**(430,153)**	(434,517)
Interest paid to a fellow subsidiary		**(40,940)**	–
Capital contributions from non-controlling shareholders of a subsidiary		**858**	2,362
Acquisition of additional interests in subsidiaries		**(37,500)**	–
Dividend paid to non-controlling shareholders of subsidiaries		**(29,087)**	(17,954)
Net cash flows generated from financing activities		**1,625,501**	979,098
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**460,949**	(521,173)
Cash and cash equivalents at beginning of year		**2,136,039**	2,733,435
Effect of foreign exchange rate changes, net		**(38,277)**	(76,223)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,558,711**	2,136,039
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged and non-restricted cash and bank balances	26	**1,887,447**	1,751,756
Non-pledged and non-restricted time deposits	26	**710,573**	384,283
Cash and cash equivalents as stated in the consolidated statement of financial position		**2,598,020**	2,136,039
Non-pledged and non-restricted time deposits with original maturity of more than three months when acquired		**(39,309)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**2,558,711**	2,136,039

1. CORPORATE AND GROUP INFORMATION

eSun Holdings Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

- property development for sale and property investment;
- development and operation of and investment in cultural, leisure, entertainment and related facilities;
- development and operation of and investment in media, entertainment, music production and distribution;
- investment in and production and distribution of television programmes, films and video format products;
- cinema operation; and
- investment holding.

Details of the principal subsidiaries are set out in note 51 to the financial statements.

On 8 August 2018, Lai Sun Garment (International) Limited ("**LSG**"), which was incorporated in Hong Kong and whose shares are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), became the ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for completed investment properties, certain investment properties under construction, derivative financial instruments, certain available-for-sale investments and certain financial assets, which have been measured at fair value. The non-current assets classified as held for sale are stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are 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. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for HKFRS 9 and HKFRS 15, the application of these new and revised HKFRSs has had no significant impact on the financial performance or financial position of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for the Group's annual period beginning on 1 August 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The Group has applied the classification and measurement requirements (including impairment) of HKFRS 9 retrospectively as at 1 August 2018 (date of initial application) to instruments that have not been derecognised as at 1 August 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 August 2018. The difference between the carrying amounts as at 31 July 2018 and the carrying amounts as at 1 August 2018 is recognised in the opening retained profits and other components of equity as at 1 August 2018.

Classification and measurement

On 1 August 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. As at 31 July 2018, the Group's financial assets, including debtors, deposits and other receivables, pledged and restricted time deposits and bank balances, and cash and cash equivalents were classified and accounted for as loans and receivables under HKAS 39. Upon adoption of HKFRS 9 on 1 August 2018, except for other receivables of HK$29,033,000 as detailed below, these financial assets were reclassified as financial assets at amortised cost.

On 1 August 2018, the financial assets previously classified as available-for-sale investments and other receivables with carrying amount of HK$114,361,000 and HK$29,033,000, respectively, were reclassified to financial assets at fair value through profit or loss because these financial assets did not pass the contractual cash flow characteristics test in HKFRS 9. In addition, the investment revaluation reserve of HK$2,499,000 and the difference of HK$98,865,000 between the carrying amount at 31 July 2018 and the fair value at 1 August 2018 of these financial assets were adjusted to retained profits.

There has been no impact on the Group's accounting for financial liabilities as the new requirements under HKFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Impairment of financial assets

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("**ECL**") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all debt instruments not held at fair value through profit or loss.

The adoption of the ECL requirements of HKFRS 9 does not have a significant financial effect on the consolidated financial statements.

As a result of the application of HKFRS 9, the Group has changed its accounting policies with respect to financial instruments, as further explained in note 2.4 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and its amendments supersede HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 August 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment, if any, to the opening balance of retained profits as at 1 August 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Following the adoption of HKFRS 15, such direct costs, if recoverable, are capitalised as "contract costs". The capitalised contract costs are amortised and charged to the income statement on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. As at 1 August 2018 and 31 July 2019, the impact of contract costs is not significant to the Group.

Presentation of contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Consideration received from customers in advance which was previously included in deposits received and deferred income is now recognised as contract liabilities (as included in deposits received, deferred income and contract liabilities) to reflect the terminology of HKFRS 15. As at 1 August 2018 and 31 July 2019, amounts of HK$555,740,000 and HK$535,237,000 were reclassified to contract liabilities, respectively, as a result of the adoption of HKFRS 15.

Significant financing component

For contracts where the period between the payment by the customer and the transfer of the promised property or service exceeds one year, the transaction price and the amount of revenue from the sale of completed properties should be adjusted for the effects of a financing component, if significant. As the period between the payment by the customer and the transfer of the property or service did not exceed one year, the impact was not significant to the Group as at 1 August 2018 and 31 July 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about HKFRS 16 that is expected to be applicable to the Group is described below.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 August 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 August 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Upon adoption of HKFRS 16, the Group expects that certain amounts included in note 44(c) to the financial statements may need to be recognised as new right-of-use assets and lease liabilities. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group will need to perform a more detailed analysis to determine the amount of new right-of-use assets and lease liabilities to be recognised arising from operating lease commitments upon the adoption of HKFRS 16, after taking into account the exemption of short-term and low value leases and the effects of discounting.

Other than the above, the Group is in the process of making an assessment of the impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial performance and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises in relation to its interest in a joint operation:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the income statement. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its completed investment properties, certain investment properties under construction, certain available-for-sale financial assets and certain financial assets and derivative financial instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than completed properties for sale, properties under development, inventories, asset classified as held for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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 entity;
- (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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment including owner-operated serviced apartments, other than investment properties, properties under development and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the unexpired lease terms
Buildings	2.5% – 5.0%
Serviced apartments	Over the remaining lease terms of the land
Leasehold improvements	Over the terms of the related leases
Theme park, excluding land and buildings	10% – 20%
Furniture, fixtures and equipment	10% – 25%
Motor vehicles	10% – 30%
Computers	18% – 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction or equipment under installation or testing, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or equipment and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. These include land held for a currently undetermined future use and properties which are constructed for future use as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions as at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of the retirement or disposal.

Properties under construction for future use as investment properties are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in the income statement in the period in which they arise.

If the fair value of an investment property under construction is at present not reliably determinable but is expected to be reliably determinable when construction is completed, such investment property under construction is stated at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier.

A transfer from investment property under construction to property under development/construction in progress shall be made when, and only when, there is a change in use, evidenced by commencement of development with a view to sale/owner-occupation.

Properties under development

Properties under development represent properties developed for sale and are stated at the lower of cost and net realisable value. Cost comprises the prepaid land lease payments, or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the development of these properties is completed, these properties are transferred to completed properties for sale.

If a property under development is intended to be redeveloped into an owner-occupied property, it is transferred to construction in progress at carrying amount.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(i) Artiste management and service agreements

Artiste management and service agreements are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life of 3 years.

(ii) Online movie platform

Online movie platform is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life of 3 years.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less cost to be incurred in selling the property.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Completed properties for sale (continued)

If an item of completed property for sale becomes owner-occupied, it is transferred to property, plant and equipment at carrying amount.

For a transfer from an item of completed property for sale to investment property that will be carried at fair value as its use has changed as evidenced by commencement of an operating lease, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in the income statement.

Music catalogs

Music catalogs represent song catalogs, music video recording rights and publishing rights of songs acquired from outsiders. They are stated at cost less accumulated amortisation and impairment losses.

The costs of music catalogs less accumulated impairment loss are amortised based on the proportion of actual revenue earned during the year to total estimated projected revenues subject to a maximum of 15 years. Additional adjustment to accumulated amortisation is made if the projected revenues are different from the previous estimation or to reflect the actual consumption of economic benefits, as appropriate. Estimated projected revenues and related future cash flows, and the amortisation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

Film rights, film products and films under production

Film rights are rights acquired or licensed from outsiders for exhibition/broadcasting and other exploitation of the films.

Film rights are stated at cost less accumulated amortisation and any impairment losses. Film rights, less accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to their total estimated projected revenues as an approximation of the consumption of their economic benefits. Additional adjustment to accumulated amortisation is made if the projected revenues are different from the previous estimation or to reflect the actual consumption of economic benefits, as appropriate. Estimated projected revenues and related future cash flows, and the amortisation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

Film products are stated at cost less accumulated amortisation and any impairment losses. The portion of film products to be recovered through use, less accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to their total estimated projected revenues as an approximation of the consumption of their economic benefits. Additional adjustment to accumulated amortisation is made if the projected revenues are different from the previous estimation or to reflect the actual consumption of economic benefits, as appropriate. Cost of film products, accounted for on a project-by-project basis, includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film.

Films under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of films. Upon completion and available for commercial exploitation, these films under production are reclassified as film products. Films under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 August 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of debtors that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Debtors that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 August 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group has certain investments in film projects and entertainment events which entitles the Group to receive a fixed and/or variable income based on the Group's investment amount and/or expected rate of return as specified in respective agreements. All film investments and investments in entertainment events which give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding are stated at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 August 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

This category includes derivative instruments and investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on investments classified as financial assets at fair value through profit or loss are also recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 August 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value recognised presented as other operating gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for “Revenue recognition (applicable before 1 August 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the income statement. The loss arising from impairment is recognised in the income statement as other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 August 2018) (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted investments and debt securities. Investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other revenue, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to the income statement in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the income statement as other revenue in accordance with the policies set out for "Revenue recognition (applicable before 1 August 2018)" below.

When the fair value of unlisted investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the effective interest rate. The difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 August 2018 and policies under HKAS 39 applicable before 1 August 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 August 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 August 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For debtors that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debtors that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 August 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 August 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include creditors and accruals, deposits received, interest-bearing bank loans, other borrowings, loans from a joint venture, a fellow subsidiary and a related company and guaranteed notes.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Put option liabilities

Put options are financial instruments granted by the Group whereby counterparties may have the rights to request the Group to purchase their equity interests in the Group's subsidiaries for cash when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash under the put option, the Group has to recognise a financial liability at the present value of the estimated future cash outflows under the put potion. The financial liability is initially recognised at fair value.

Subsequently, if the Group revises its estimates of the payments, the Group adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. At the end of each reporting period, the Group recalculates the carrying amount by computing the present value of the revised estimated future cash outflows at the financial instrument's original effective interest rate and adjustment to its carrying amount is to be recognised as income or expenses in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018) (continued)

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as cross currency swaps, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

For the purpose of hedge accounting, hedges of the Group are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018) (continued)

Initial recognition and subsequent measurement (continued)

Before 1 August 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 August 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The effectiveness of the cash flow hedge is assessed at the time the Group prepares its annual or interim financial statements.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while any ineffective portion is recognised immediately in the income statement. The hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the income statement.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the income statement as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 August 2018 and HKAS 39 applicable before 1 August 2018) (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories comprise video products, gaming products and merchandise, food, beverages and supplies used in theme park and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Revenue recognition (applicable from 1 August 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 August 2018) (continued)

Revenue from contracts with customers (continued)

(a) Sale of completed properties
Revenue from the sale of completed properties is recognised upon the signing of the property handover letter, which is taken to be the point in time when the control of the property is transferred to the purchaser.

(b) Revenue from serviced apartment operation and building management operation
Revenue from serviced apartment operation and building management operation services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) Revenue from theme park operation
Revenue from admission tickets sold is recognised over time when the theme park service is provided to the customer or at a point in time when tickets are expired.

(d) Entertainment event
Revenue from entertainment events organised by the Group is recognised when the events are completed.

(e) Film distribution
Income from films licensed to movie theatres is recognised when the films are exhibited.

(f) Film licence fee
Licence income from films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract is recognised where an assignment is granted to the licensee which permits the licensee to exploit those film rights freely and where the Group has no remaining obligations to perform and when the film materials have been delivered to licensees.

Licence income from films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period is recognised when the films are available for showing or telecast.

(g) Sale of products and albums
Sale of products and albums are recognised when control of the asset is transferred to the customers, generally on delivery of the products or in accordance with the terms of the relevant agreements.

(h) Distribution commission
Distribution commission income is recognised when the albums or film materials have been delivered to the wholesalers, distributors and licensees.

(i) Album licence and music publishing
Album licence income and music publishing income are recognised when the license is used by the customer or the customer simultaneously receives and consumes the benefits provided by the Group in accordance with the terms of the relevant agreements.

(j) Box-office takings
Revenue from gross box-office takings for film exhibition is recognised at a point in time, upon the sale of tickets and when the film is exhibited.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 August 2018) (continued)

Revenue from contracts with customers (continued)

(k) Advertising, artiste management, producer and consultancy service
Advertising income, artiste management fee income, producer fee income and consultancy service income from entertainment events and commission income and handling fee from entertainment events are recognised in the period in which the relevant services are rendered to the customer or the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 August 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) revenue from the sale of properties, when the significant risks and rewards of properties are transferred to the purchasers, which refers to the time when the construction of relevant properties has been completed and the properties have been ready for delivery to the purchasers pursuant to the sales agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as deposits received;

(b) rental and property management fee income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(c) turnover from entertainment events organised by the Group, when the events are completed;

(d) net gain from entertainment events organised by other co-investors, when the events are completed and in proportion as agreed with co-investors;

(e) income from films licensed to movie theatres, when the films are exhibited;

(f) licence income from films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment is granted to the licensee which permits the licensee to exploit those film rights freely and where the Group has no remaining obligations to perform and when the film materials have been delivered to licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 August 2018) (continued)

(g) licence income from films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period and when the films are available for showing or telecast;

(h) sale of products and albums, when significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the products and albums sold;

(i) distribution commission income, when the album or film materials have been delivered to the wholesalers, distributors and licensees;

(j) album licence income and music publishing income, on an accrual basis in accordance with the terms of the relevant agreements;

(k) income from gross box-office takings for film exhibition is recognised upon the sale of tickets and when the film is released;

(l) advertising income, artiste management fee income, producer fee income and consultancy service income on entertainment events, in the period in which the relevant services are rendered;

(m) service fee income, when the relevant services have been rendered;

(n) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(o) dividend income, when the shareholder's right to receive payment has been established.

Contract liabilities (applicable from 1 August 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 August 2018)

Costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the income statement on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payments

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model and binomial option pricing model, further details of which are given in note 39 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the income statement is also recognised in other comprehensive income or the income statement, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividends

Final dividends proposed by the board of directors are not recognised as a liability until they have been approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum of association and Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "**PRC**").

Mainland China Land Appreciation Tax ("LAT")

LAT is levied at prevailing progressive rates on the appreciation of land value, being the proceeds from the sale of properties less deductible costs.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or for both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(ii) When fair value of investment properties under construction can be reliably measured

If the fair value of an investment property under construction is at present not reliably measurable, such property is stated at cost until either its fair value becomes reliably measurable or construction is completed, whichever is earlier.

The Group has to exercise judgement in determining when the fair value of an investment property under construction can be reliably measured by assessing whether a substantial part of the project risk has been reduced or eliminated, which might include the consideration of (i) whether the asset is being constructed in a developed liquid market; (ii) whether the construction permits have been obtained; and (iii) the stage of construction or completion. Other indications may also be appropriate in light of the facts and circumstances of individual developments.

(iii) Income tax

Deferred tax is provided using the liability method, on all temporary differences as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

As explained in note 37 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's PRC subsidiaries that would be distributed to their respective holding companies outside Mainland China in the foreseeable future.

The Group's investment properties measured at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be 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. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(iv) Put option liabilities

As explained in note 29 to the financial statements, put option liabilities arising from the buy-back upon the occurrence of certain triggering events during the six-year investment period are recognised as financial liabilities. When determining the classification and measurement of the put option liabilities, judgements are exercised, including determining whether the Group has the present ownership interest in the shares subject to the put options, the timing that the triggering events would occur and the possibility that the buy-back would be exercised.

Estimation uncertainty

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, are described below.

(i) Accounting for film rights, film products and films under production

Films under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses. Film rights and film products are stated at cost less accumulated amortisation and any impairment losses. The portions of film rights and film products to be recovered through use, less accumulated impairment losses, are amortised based on the proportion of actual revenues earned during the year to their total estimated projected revenues as an approximation of the consumption of their economic benefits. Additional adjustment to accumulated amortisation is made if the projected revenues are different from the previous estimation or to reflect the actual consumption of economic benefits, as appropriate.

Management estimates the costs to be incurred to complete production and the total projected revenues and related future cash flows, as appropriate, of each film under production and each film product based on the historical cost, performance and cash flows of similar films, incorporating factors such as the production plan, target market and business plan of films, the past box office records and/or other relevant information of the main artistes and directors of the films, the genre of the films, anticipated performance in the theatrical, home entertainment, television and other ancillary markets, and/or agreements for future sales, licensing and other exploitation.

These estimated costs to be incurred to complete production, projected revenues and related future cash flows can change significantly due to a variety of factors. Based on both internal and external market information available on the films under production and film products, management reviews and revises the estimated costs to be incurred to complete production, projected revenues and related future cash flows of the relevant asset, as appropriate, to assess whether there are any indicators of impairment or reversal of impairment at least at the end of each reporting period. Any change in consumption of economic benefits or estimations of costs to be incurred to complete production, projected revenues and related future cash flows may result in a change in the rate of amortisation and/or the impairment of the assets. This could have a significant impact on the Group's financial performance. The carrying amounts of film rights, film products and films under production and film investments are disclosed in notes 15, 16 and 24 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for properties in the same location and condition and subject to similar lease and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

Further details, including the key assumptions used for fair value measurement, a sensitivity analysis and the carrying amount of investment properties, are given in note 14 to the financial statements.

(iii) Estimation of total budgeted costs and costs to completion for properties under development/investment properties under construction

The total budgeted costs for properties under development/investment properties under construction comprise (i) prepaid land lease payments, (ii) building costs, and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development/investment properties under construction, management makes reference to information such as (i) current offers from contractors and suppliers, (ii) recent offers agreed with contractors and suppliers, and (iii) professional estimation on construction and material costs.

(iv) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(v) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill is disclosed in note 18 to the financial statements.

(vi) Impairment of non-financial assets (other than goodwill)

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(vii) Provision for expected credit losses on debtors and other receivables

Under HKAS 39 applicable before 1 August 2018, the Group makes impairment of receivables based on assessments of the recoverability of debtors and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment of receivables in the year in which such estimate has been changed. The carrying amounts of debtors and other receivables are disclosed in notes 25 and 23 to the financial statements, respectively.

Under HKFRS 9 applicable on 1 August 2018, the Group uses a provision matrix to calculate ECLs for debtors. The provision rates are based on days past due for groupings of various customer segments with shared risk characteristics. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's debtors is disclosed in note 25 to the financial statements.

The loss allowances for other receivables are based on assumption about risk of default and expected loss rates. The Group makes adjustment in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. A number of significant judgements are also required in applying the accounting requirements for measuring ECLs, such as:

- Determining criteria for a significant increase in credit risk;
- Identifying economic indicators for forward-looking measurement; and
- Estimating future cash flows for the other receivables.

The information about the provision for ECLs on the Group's other receivables is disclosed in note 23 to the financial statements.

(viii) Provision for LAT and corporate income tax ("CIT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final tax outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related LAT provision in the period in which such taxes are finalised with the tax authorities.

The Group is mainly subject to CIT in the PRC. As a result of the fact that certain matters relating to the CIT have not been confirmed by the tax authorities, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and related CIT provision in the period in which such taxes are finalised with the tax authorities.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following reportable segments:

(a) the property development segment engages in the development of properties for sale in Mainland China;

(b) the property investment segment invests in serviced apartments, commercial and office buildings for their rental income potential, provides building management services as well as invests in and operates cultural, leisure, entertainment and related facilities in Mainland China;

(c) the media and entertainment segment engages in the investment in and the production of entertainment events and provision of related advertising services, the provision of artiste management services, album sales and the distribution and licence of music and trading of gaming products;

(d) the film production and distribution segment engages in the investment in, production of, sale, distribution and licence of television programmes and films, the provision of related advertising services as well as the distribution of video format products derived from these films and films licensed-in by the Group;

(e) the cinema operation segment engages in the operation of cinemas in Hong Kong and Mainland China; and

(f) the corporate and others segment comprises business segments not constituting a reportable segment individually, together with corporate income and expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax and tax indemnity. The adjusted profit/loss before tax and tax indemnity is measured consistently with the Group's profit before tax and tax indemnity except that interest income, finance costs and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude financial assets at fair value through profit or loss, available-for-sale investments, deferred tax assets, prepaid tax, assets classified as held for sale, derivative financial instruments and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, loans from a joint venture, a fellow subsidiary and a related company, guaranteed notes, deferred tax liabilities, put option liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

In determining the Group's geographical information, revenue information is based on the location of the customers, and asset information is based on the location of the assets.

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue/results:

	Property development		Property investment		Media and entertainment		Film production and distribution		Cinema operation		Corporate and others		Consolidated	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Segment revenue (note 6):														
Sales to external customers	**613,322**	184,633	**839,851**	759,963	**591,795**	428,198	**325,996**	342,684	**521,259**	408,342	**11,139**	60,043	**2,903,362**	2,183,863
Intersegment sales	**–**	–	**8,076**	6,226	**100**	–	**14,524**	11,453	**1,551**	1,595	**2,381**	3,039	**26,632**	22,313
Other revenue	**916**	2,599	**24,181**	137,970	**8,827**	7,898	**2,988**	2,227	**25,083**	32,130	**1,172**	12,060	**63,167**	194,884
Total	**614,238**	187,232	**872,108**	904,159	**600,722**	436,096	**343,508**	356,364	**547,893**	442,067	**14,692**	75,142	**2,993,161**	2,401,060
Elimination of intersegment sales													**(26,632)**	(22,313)
Total revenue													**2,966,529**	2,378,747
Segment results	**310,453**	(7,552)	**518,270**	1,252,698	**64,218**	21,817	**(119,590)**	(258,653)	**(107,274)**	(95,947)	**(205,566)**	(235,526)	**460,511**	676,837
Unallocated interest and other revenue	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**37,765**	52,591
Fair value gains on cross currency swaps	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**18,050**	38,049
Profit from operating activities													**516,326**	767,477
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(160,617)**	(240,612)
Share of profits and losses of joint ventures	**(22,002)**	403,368	**–**	–	**(144)**	1,912	**(1,586)**	(909)	**–**	–	**(1,692)**	(1,483)	**(25,424)**	402,888
Share of profits and losses of associates	**–**	–	**(40)**	(192)	**(68)**	(1)	**432**	(15,638)	**463**	1,729	**–**	–	**787**	(14,102)
Profit before tax and tax indemnity													**331,072**	915,651
Income tax expense													**(312,967)**	(334,929)
Tax indemnity													**–**	92,695
Profit for the year													**18,105**	673,417

Segment assets/liabilities:

	Property development		Property investment		Media and entertainment		Film production and distribution		Cinema operation		Corporate and others		Consolidated	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Segment assets	**3,537,621**	3,020,564	**25,056,113**	22,003,818	**433,816**	357,234	**877,035**	1,057,613	**647,469**	657,680	**3,315,404**	2,689,192	**33,867,458**	29,786,101
Investments in joint ventures	**1,317**	1,851,267	**–**	–	**17,804**	13,788	**2,071**	421	**–**	–	**1,801**	2,840	**22,993**	1,868,316
Investments in associates	**–**	–	**5,804**	5,932	**–**	–	**–**	3,706	**–**	6,640	**–**	–	**5,804**	16,278
Unallocated assets													**648,936**	379,124
Assets classified as held for sale													**68,186**	–
Total assets													**34,613,377**	32,049,819
Segment liabilities	**615,643**	685,496	**1,757,714**	1,133,855	**181,195**	136,122	**417,061**	443,455	**205,151**	206,362	**144,185**	157,645	**3,320,949**	2,762,935
Unallocated liabilities													**13,867,132**	11,641,936
Total liabilities													**17,188,081**	14,404,871

4. OPERATING SEGMENT INFORMATION (continued)

Other segment information:

	Property development		Property investment		Media and entertainment		Film production and distribution		Cinema operation		Corporate and others		Consolidated	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Fair value gains on investment properties	-	–	(211,500)	(857,297)	-	–	-	–	-	–	-	–	(211,500)	(857,297)
Gain on swap of properties	-	–	-	(41,379)	-	–	-	–	-	–	-	–	-	(41,379)
Gain on disposal of subsidiaries	-	–	-	–	-	–	(4,720)	–	-	–	-	(2,487)	(4,720)	(2,487)
Gain on disposal of an associate	-	–	-	–	-	–	-	–	(19,705)	–	-	–	(19,705)	–
Depreciation	1,438	1,887	87,397	109,652	1,587	1,617	1,508	2,236	64,699	53,671	8,178	9,638	164,807	178,701
Reversal of write-down of completed properties for sale to net realisable value	-	(426)	-	–	-	–	-	–	-	–	-	–	-	(426)
Loss on disposal of items of property, plant and equipment	47	19	693	2,296	28	–	-	–	39	28	10	4	817	2,347
Impairment of investment properties under construction at cost	-	–	-	55,658	-	–	-	–	-	–	-	–	-	55,658
Write-down of properties under development to net realisable value	-	38,222	-	–	-	–	-	–	-	–	-	–	-	38,222
Impairment of property, plant and equipment	-	–	-	–	-	–	-	–	40,850	10,000	-	–	40,850	10,000
Impairment of films under production	-	–	-	–	-	–	64,310	5,614	-	–	-	–	64,310	5,614
Amortisation of film rights	-	–	-	–	-	–	6,357	9,755	-	–	-	–	6,357	9,755
Amortisation of film products	-	–	-	–	-	–	69,019	320,773	-	–	-	–	69,019	320,773
Amortisation of music catalogs	-	–	-	–	2,870	1,781	-	–	-	–	-	–	2,870	1,781
Write-back of impairment of music catalogs	-	–	-	–	(8,842)	–	-	–	-	–	-	–	(8,842)	–
Write-back of impairment of film rights	-	–	-	–	-	–	(18,000)	–	-	–	-	–	(18,000)	–
Amortisation of other intangible assets	-	–	-	–	-	15,138	586	833	-	–	-	–	586	15,971
Impairment of advances and other receivables	-	–	-	–	3,184	3,031	18,486	12,893	539	–	-	–	22,209	15,924
Write-back of impairment of advances and other receivables	-	–	-	–	(251)	(118)	(316)	(500)	-	–	-	–	(567)	(618)
Impairment/(write-back of impairment) of amounts due from joint ventures	-	–	-	–	1,763	(172)	-	–	-	–	-	–	1,763	(172)
Impairment/(write-back of impairment) of inventories	-	–	-	–	2,319	(2,084)	161	319	-	–	-	85	2,480	(1,680)
Additions of property, plant and equipment	965	1,098	1,281,049	746,635	4,798	618	725	1,531	65,368	156,396	3,199	1,007	1,356,104	907,285
Additions of properties under development	703,012	537,140	-	–	-	–	-	–	-	–	-	–	703,012	537,140
Additions of investment properties	-	–	1,722,074	971,357	-	–	-	–	-	–	-	–	1,722,074	971,357
Additions of film rights	-	–	-	–	-	–	1,760	–	-	–	-	–	1,760	–
Additions of film products, net	-	–	-	–	-	–	2	(927)	-	–	-	–	2	(927)
Additions of films under production and film investments	-	–	-	–	-	–	245,585	292,633	-	–	-	–	245,585	292,633

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information:

	Hong Kong		Mainland China (including Macau)		Others		Consolidated	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Revenue:								
Sales to external customers	1,020,704	824,258	1,806,101	1,294,774	76,557	64,831	2,903,362	2,183,863
Assets:								
Segment assets:								
– non-current assets	581,132	627,662	25,770,448	24,328,387	9,817	99	26,361,397	24,956,148
– current assets	1,107,954	1,169,417	6,407,596	5,532,425	19,308	12,705	7,534,858	6,714,547
Unallocated assets							648,936	379,124
Assets classified as held for sale							68,186	–
Total assets							34,613,377	32,049,819
Other information:								
Additions of property, plant and equipment	65,178	102,164	1,290,647	805,091	279	30	1,356,104	907,285
Additions of properties under development	–	–	703,012	537,140	–	–	703,012	537,140
Additions of investment properties	–	–	1,722,074	971,357	–	–	1,722,074	971,357
Additions of film rights	1,760	–	–	–	–	–	1,760	–
Additions of film products, net	2	(927)	–	–	–	–	2	(927)
Additions of films under production and film investments	70,766	189,181	174,819	103,452	–	–	245,585	292,633

Information about major customers:

No customers of the Group have individually accounted for over 10% of the Group's total revenue during the years ended 31 July 2019 and 2018.

5. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year.

(a) Transactions with related parties

	Notes	**2019 HK$'000**	2018 HK$'000
LSG and its subsidiaries, excluding the Group:			
Rental expense and building management fee paid or payable	(i)	**18,761**	13,231
Rental income and management fee income received or receivable	(ii)	**369**	67
Tax indemnity received	10(b), (iii)	**–**	92,695
Interest expense	8, 36, (iv)	**41,436**	1,946
Sharing of corporate salaries on a cost basis allocated from		**53,416**	52,241
Sharing of administrative expenses on a cost basis allocated from		**9,911**	6,212
Sharing of corporate salaries on a cost basis allocated to		**8,972**	8,343
Sharing of administrative expenses on a cost basis allocated to		**3,480**	3,335
Joint ventures:			
Production fee	(v)	**2,770**	2,790
Interest income	(v)	**688**	722
Interest expense	8, 20, (vi)	**7,125**	28,189
Management and other service fees paid or payable to a related company	(vii)	**9,039**	9,432

5. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes:

(i) *The rental expense and building management fee were charged with reference to market rates.*

(ii) *The terms of the rental income and management fee income were determined based on the agreements entered into between the Group and the related companies.*

(iii) *The related company is Lai Sun Development Company Limited ("**LSD**") and further details of this transaction are set out in note 10(b) to the financial statements.*

(iv) *The terms of loans are determined based on agreements entered into between the Group and a fellow subsidiary (2018: a related company) set out in note 36 to the financial statements.*

(v) *The production fee and interest income were charged in accordance with contractual terms with respective parties.*

(vi) *The joint ventures of the Group are Guangzhou Beautiwin Real Estate Development Company Limited and Beautiwin Limited. The terms of the loans are determined based on agreements entered into between the Group and the joint ventures and set out in note 20 to the financial statements.*

(vii) *The management and other service fees were charged based on an agreement entered into between the Group and a subsidiary of CapitaLand Limited, a substantial shareholder of Lai Fung Holdings Limited ("**Lai Fung**").*

Certain of the above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") and their details are disclosed in the Report of the Directors.

(b) Compensation of key management personnel of the Group

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**39,472**	39,000
Post-employment benefits	**104**	104
Total compensation paid to key management personnel	**39,576**	39,104

Further details of directors' emoluments are included in note 9 to the financial statements.

6. TURNOVER AND OTHER REVENUE

An analysis of the Group's turnover and other revenue is as follows:

	2019 HK$'000	2018 HK$'000
Turnover	**2,903,362**	2,183,863
Other revenue	**100,932**	247,475
Total turnover and other revenue	**3,004,294**	2,431,338
Turnover and other revenue from contracts with customers		
Sale of properties	**613,322**	184,633
Serviced apartment operation	**158,073**	168,711
Theme park operation	**285**	–
Building management operation	**108,867**	114,354
Entertainment event income	**309,321**	197,686
Distribution commission income from, licence fee income from and sales of film products and film rights	**320,965**	337,757
Album sales, licence income and distribution commission income from music publishing and licensing	**86,609**	68,858
Box-office takings, concessionary income and related income from cinemas	**521,259**	408,342
Artiste management fee income	**18,900**	38,311
Advertising income	**5,031**	4,927
Sale of game products	**176,965**	123,343
Sale of merchandising products	**11,139**	60,043
	2,330,736	1,706,965
Turnover and other revenue from other sources		
Rental income from investment properties	**572,626**	591,252
Bank interest income	**27,892**	41,947
Other interest income	**1,007**	716
Interest income from an amount due from a joint venture, net	**687**	722
Government grants	**1,969**	6,230
Others	**69,377**	83,506
	673,558	724,373
	3,004,294	2,431,338

6. TURNOVER AND OTHER REVENUE (continued)

(a) Disaggregated revenue information

For the year ended 31 July 2019

	Property development HK$'000	Property investment HK$'000	Media and entertainment HK$'000	Film production and distribution HK$'000	Cinema operation HK$'000	Corporate and others HK$'000	Total HK$'000
Geographical markets							
Hong Kong	–	–	433,761	90,436	485,368	11,139	1,020,704
Mainland China (including Macau)	613,322	267,225	116,106	200,931	35,891	–	1,233,475
Others	–	–	41,928	34,629	–	–	76,557
Total turnover from contracts with customers	613,322	267,225	591,795	325,996	521,259	11,139	2,330,736
Turnover from other source – rental income from investment properties	–	572,626	–	–	–	–	572,626
Total turnover	613,322	839,851	591,795	325,996	521,259	11,139	2,903,362
Timing of revenue recognition							
At a point in time	613,322	–	535,061	325,996	521,259	11,139	2,006,777
Over time	–	267,225	56,734	–	–	–	323,959
Total turnover from contracts with customers	613,322	267,225	591,795	325,996	521,259	11,139	2,330,736
Turnover from other source – rental income from investment properties	–	572,626	–	–	–	–	572,626
Total turnover	613,322	839,851	591,795	325,996	521,259	11,139	2,903,362

The revenue from contracts with customers recognised in the current reporting period that was included in contract liabilities at the beginning of the reporting period was HK$379,625,000.

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of properties

Revenue from the sale of properties is recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property. Payment in advance is normally required.

Serviced apartment operation and building management operation

The performance obligation is satisfied over time as services are rendered. Contracts for serviced apartment services and building management services are for certain periods and are billed based on the time incurred.

6. TURNOVER AND OTHER REVENUE (continued)

(b) Performance obligations (continued)

Information about the Group's performance obligations is summarised below: (continued)

Entertainment event

Revenue from entertainment events organised by the Group is recognised at a point in time when the events are completed. Payment is generally due within 30 to 60 days from the date of billing.

Film licence fee income

The performance obligation is satisfied at a point in time (i) when the films licensed to movie theatres are exhibited, (ii) where an assignment is granted to the licensee which permits the licensee to exploit those rights freely and where the Group has no remaining obligations to perform and when the materials have been delivered to licensees, or (iii) when the films are available for showing or telecast. Partial payment in advance for license income is normally required and the remaining balance is billed upon completion of exhibition of the films which is generally due within 30 to 60 days from the date of billing.

Distribution commission

Distribution commission income is recognised at a point in time when the albums or film materials have been delivered to the wholesalers, distributors and licensees. Payment in advance is normally required.

Box-office takings income

Revenue from cinema admission tickets sold is recognised at a point in time when tickets are accepted and consumed by the customer. Payment in advance is normally required.

Sale of products

Revenue from sale of products is recognised at a point in time when the product is delivered to customers, being at the point that the customer obtains the control of the product, and payment is generally due within 30 to 90 days from the date of billing.

(c) Transaction price allocated to the remaining performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) regarding contracts for sale of properties as at 31 July 2019 was HK$76,748,000 and expected to be recognised as revenue within one year.

The Group elected to apply the practical expedient under HKFRS 15 and does not disclose the amount of the transaction price allocated to the remaining obligations for contracts with an original expected duration for one year or less or contracts for serviced apartment and building management operations for which the Group bills fixed amount for each month of service provided and recognise revenue in the amount to which the Group has right to invoice.

The ultimate consideration for those contracts will depend on the occurrence or non-occurrence of future customer's fulfillment of contracts. Accordingly, the above may not reflect the actual performance of the Group in the future. The analysis is solely for compliance with HKFRS 15 disclosure requirement in respect of transaction price allocated to the remaining performance obligations.

7. PROFIT BEFORE TAX AND TAX INDEMNITY

The Group's profit before tax and tax indemnity is arrived at after charging/(crediting):

	Notes	2019 HK$'000	2018 HK$'000
Cost of completed properties sold		**253,122**	115,491
Outgoings in respect of rental income, serviced apartment operation and building management **		**303,962**	169,149
Cost of film rights, licence rights and film products		**347,347**	403,516
Cost of artiste management services and services for entertainment events provided		**268,671**	180,722
Cost of theatrical releasing and concessionary sales		**187,365**	151,894
Cost of inventories sold		**167,951**	149,707
Total cost of sales		**1,528,418**	1,170,479
Employee benefit expense (including directors' remuneration (note 9)):			
Wages and salaries		**632,896**	609,470
Equity-settled share option expenses		**2,322**	2,679
Pension scheme contributions ##		**8,903**	7,795
		644,121	619,944
Capitalised in films under production and film investments		**(7,964)**	–
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(124,723)**	(117,663)
		511,434	502,281
Auditor's remuneration		**10,321**	10,459
Depreciation ^	12	**164,807**	178,701
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events #		**6,159**	5,342
Cinemas *		**183,983**	141,252
Others		**46,874**	46,880
Contingent rents incurred for:			
Entertainment events #		**40,631**	21,615
Cinemas *		**11,812**	11,585
		289,459	226,674
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(10,599)**	(10,466)
Total operating lease payments		**278,860**	216,208
Contingent rent income		**(4,159)**	(14,248)

7. PROFIT BEFORE TAX AND TAX INDEMNITY (continued)

The Group's profit before tax and tax indemnity is arrived at after charging/(crediting): (continued)

	Notes	2019 HK$'000	2018 HK$'000
Impairment of property, plant and equipment *	12	**40,850**	10,000
Write-down of properties under development to net realisable value *	13	**–**	38,222
Impairment of investment properties under construction at cost *	14	**–**	55,658
Reversal of write-down of completed properties for sale to net realisable value *		**–**	(426)
Write-off of items of property, plant and equipment *		**653**	932
Impairment of films under production #	24	**64,310**	5,614
Share of net gain from entertainment events organised by co-investors *		**(9,109)**	(2,974)
Amortisation of film rights #	15	**6,357**	9,755
Amortisation of film products #	16	**69,019**	320,773
Amortisation of music catalogs #	17	**2,870**	1,781
Amortisation of other intangible assets #	19	**586**	15,971
Impairment of debtors *	25	**693**	429
Impairment of advances and other receivables *	23	**22,209**	15,924
Write-back of impairment of advances and other receivables *	23	**(567)**	(618)
Impairment/(write-back of impairment) of amounts due from joint ventures *		**1,763**	(172)
Write-back of impairment of music catalogs *	17	**(8,842)**	–
Write-back of impairment of film rights *	15	**(18,000)**	–
Gain on swap of properties *		**–**	(41,379)
Gain on disposal of subsidiaries *	42	**(4,720)**	(2,487)
Gain on disposal of an associate *	21	**(19,705)**	–
Fair value gains on cross currency swaps *	35	**(18,050)**	(38,049)
Fair value losses on financial assets at fair value through profit or loss *		**12,758**	–
Loss on disposal of items of property, plant and equipment *		**817**	2,347
Impairment/(write-back of impairment) of inventories #		**2,480**	(1,680)
Foreign exchange differences, net *		**5,812**	37,607

* *These items are included in "Other operating expenses, net" on the face of the consolidated income statement. The contingent rents are charged based on certain percentages of the gross box-office takings in respect of the cinema operation.*

** *Outgoings in respect of building management of HK$136,047,000 was included in "Administrative expenses" on the face of the consolidated income statement for the year ended 31 July 2018.*

\# *These items are included in "Cost of sales" on the face of the consolidated income statement. The contingent rents are charged based on certain percentages of the gross ticket proceeds collected in respect of the entertainment events.*

\## *As at 31 July 2019 and 31 July 2018, the Group had no forfeited contributions from the pension schemes available to reduce its contributions to the pension schemes in future years.*

^ *Depreciation charge of HK$142,309,000 (2018: HK$151,665,000) is included in "Other operating expenses, net" on the face of the consolidated income statement, of which HK$77,610,000 (2018: HK$97,994,000) is for serviced apartments and related leasehold improvements and HK$64,699,000 (2018: HK$53,671,000) is related to cinema operation.*

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2019 HK$'000	2018 HK$'000
Interest on:			
Bank loans		**263,372**	180,053
Other borrowings		**5,766**	5,647
TFN Convertible Notes (as defined and disclosed in note 33)		**–**	8,849
Specific Mandate Convertible Notes (as defined and disclosed in note 33)		**–**	5,645
Fixed rate senior notes		**–**	103,767
Guaranteed notes		**147,043**	78,557
Loans from a joint venture	5	**7,125**	28,189
Loans from a related company	5	**–**	1,946
Loans from a fellow subsidiary	5	**41,436**	–
Amortisation of transaction fee for:			
Bank loans		**26,309**	24,626
Fixed rate senior notes		**–**	6,349
Guaranteed notes	34	**4,440**	2,260
Bank financing charges and direct costs		**7,601**	13,376
Other finance costs		**1,645**	507
		504,737	459,771
Less: Capitalised in properties under development	13	**(105,774)**	(87,857)
Capitalised in investment properties under construction	14	**(147,771)**	(83,472)
Capitalised in construction in progress	12	**(90,575)**	(47,830)
		(344,120)	(219,159)
Total finance costs		**160,617**	240,612

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.6% (2018: 5.7%) has been applied to the expenditure on the individual assets for the year ended 31 July 2019.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	**1,941**	2,105
Other emoluments:		
Salaries, allowances and benefits in kind	**21,933**	21,314
Pension scheme contributions	**104**	104
	22,037	21,418
	23,978	23,523
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(7,495)**	(7,081)
	16,483	16,442

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(a) Directors' remuneration (continued)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 July 2019				
Executive directors:				
Lui Siu Tsuen, Richard^	120	3,932	14	4,066*
Chew Fook Aun	–	9,187	36	9,223**
Lam Hau Yin, Lester	–	1,734	18	1,752#
Yip Chai Tuck	–	2,550	36	2,586##
	120	17,403	104	17,627
Non-executive directors:				
U Po Chu	–	4,280	–	4,280#
Andrew Y. Yan (resigned on 8 January 2019)	126	10	–	136
	126	4,290	–	4,416
Independent non-executive directors:				
Low Chee Keong	725	60	–	785
Alfred Donald Yap	290	65	–	355
Ng Lai Man, Carmen	390	65	–	455
Lo Kwok Kwei, David	290	50	–	340
	1,695	240	–	1,935
	1,941	21,933	104	23,978

^ *Lui Siu Tsuen, Richard is also the chief executive officer of the Company.*

* *The amounts included fees of HK$120,000 paid by Media Asia Group Holdings Limited ("**MAGHL**", together with its subsidiaries, "**MAGHL Group**").*

** *The amounts included salaries and pension scheme contributions of HK$4,611,000 paid by Lai Fung.*

The amounts were paid by Lai Fung.

The amounts included salaries and pension scheme contributions of HK$1,293,000 paid by MAGHL.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(a) Directors' remuneration (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 July 2018				
Executive directors:				
Lui Siu Tsuen, Richard^	120	3,808	14	3,942*
Chew Fook Aun	–	8,855	36	8,891**
Lam Hau Yin, Lester	–	1,652	18	1,670#
Yip Chai Tuck	–	2,429	36	2,465##
	120	16,744	104	16,968
Non-executive directors:				
U Po Chu	–	4,325	–	4,325#
Andrew Y. Yan	290	20	–	310
	290	4,345	–	4,635
Independent non-executive directors:				
Low Chee Keong	725	60	–	785
Alfred Donald Yap	290	60	–	350
Ng Lai Man, Carmen	390	60	–	450
Lo Kwok Kwei, David	290	45	–	335
	1,695	225	–	1,920
	2,105	21,314	104	23,523

^ *Lui Siu Tsuen, Richard is also the chief executive officer of the Company.*

* *The amounts included fees of HK$120,000 paid by MAGHL.*

** *The amounts included salaries and pension scheme contributions of HK$4,446,000 paid by Lai Fung.*

The amounts were paid by Lai Fung.

The amounts included salaries and pension scheme contributions of HK$1,233,000 paid by MAGHL.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 July 2019 and 2018.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(b) Employees' remuneration

The five highest paid employees during the year included one (2018: two) director, details of whose emoluments are set out above. Details of the remuneration for the year of the remaining four (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**33,900**	27,192
Pension scheme contributions	**36**	18
	33,936	27,210
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(7,450)**	(7,079)
	26,486	20,131

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**1**	–
HK$6,000,001 – HK$6,500,000	**1**	–
HK$7,000,001 – HK$7,500,000	**–**	1
HK$7,500,001 – HK$8,000,000	**1**	–
HK$15,500,001 – HK$16,000,000	**1**	1
	4	3

10. INCOME TAX EXPENSE AND TAX INDEMNITY

(a) Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Note	2019 HK$'000	2018 HK$'000
Current			
– Hong Kong			
Charge for the year		**4,533**	1,550
Overprovision in prior years		**(22)**	(1,934)
		4,511	(384)
– Mainland China			
CIT			
Charge for the year		**78,747**	59,265
Underprovision/(overprovision) in prior years		**380**	(1,130)
LAT			
Charge for the year		**118,898**	27,157
Underprovision in prior years		**20,301**	–
		218,326	85,292
– Elsewhere			
Charge for the year		**–**	145
		222,837	85,053
Deferred tax	37	**90,130**	249,876
Total tax charge for the year		**312,967**	334,929

10. INCOME TAX EXPENSE AND TAX INDEMNITY (continued)

(a) Income tax expense (continued)

A reconciliation of the tax expense applicable to profit before tax and tax indemnity at the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 HK$'000	2018 HK$'000
Profit before tax and tax indemnity	**331,072**	915,651
Tax at the applicable tax rates	**103,748**	291,080
Provision for LAT	**118,898**	27,157
Tax effect of provision for LAT	**(34,800)**	(6,789)
Profits and losses attributable to joint ventures and associates	**5,928**	(98,467)
Income not subject to tax	**(21,278)**	(23,797)
Expenses and losses not deductible for tax	**53,028**	56,492
Other temporary differences	**(3,946)**	(193)
Estimated tax losses utilised from prior years	**(6,414)**	(10,905)
Estimated tax losses not recognised	**88,103**	90,422
Adjustments in respect of current tax of prior years	**20,659**	(3,064)
Withholding tax on the distributable earnings of the subsidiaries established in Mainland China	**(10,959)**	12,993
Tax charge at the Group's effective rate	**312,967**	334,929

(b) Tax indemnity

	2019 HK$'000	2018 HK$'000
Tax indemnity	**–**	92,695

In connection with the listing of Lai Fung (together with its subsidiaries, "**Lai Fung Group**") on the Stock Exchange (currently on the Main Board) (the "**Listing**"), a tax indemnity deed was signed on 12 November 1997, pursuant to which LSD has undertaken to indemnify the Lai Fung Group in respect of certain potential Mainland China CIT and LAT payables or shared by the Lai Fung Group in consequence of the disposal of certain property interests attributable to the Lai Fung Group through its subsidiaries and joint ventures as at 31 October 1997 (the "**Property Interests**"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon performed by Chesterton Petty Limited (currently known as "Knight Frank Petty Limited" ("**Knight Frank**")), independent professionally qualified valuers, as at 31 October 1997 (the "**Valuation**") and (ii) the aggregate costs of such Property Interests incurred up to 31 October 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

10. INCOME TAX EXPENSE AND TAX INDEMNITY (continued)

(b) Tax indemnity (continued)

The indemnity deed assumes that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing Mainland China income tax and LAT prevailing at the time of the Valuation. The indemnities given by LSD do not cover (i) new properties acquired by the Lai Fung Group subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Lai Fung Group as set out in the prospectus of Lai Fung dated 18 November 1997. During the year ended 31 July 2019, no tax indemnity was received. During the year ended 31 July 2018, HK$92,695,000 was received by the Lai Fung Group from LSD in relation to the CIT and LAT incurred and paid by the Lai Fung Group or its joint ventures which is attributable to the disposal of certain properties located in Guangzhou, Mainland China.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to owners of the Company and the weighted average number of ordinary shares of 1,491,854,598 (2018: 1,491,854,598) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to owners of the Company, adjusted for the effect of dilutive potential ordinary shares arising from adjustment to the share of profit of Lai Fung based on dilution of its earnings per share. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and weighted average number of ordinary shares assumed to have been issued at no consideration as if all the Company's outstanding share options have been exercised.

The conversion of the outstanding convertible notes issued by MAGHL has an anti-dilutive effect on the basic earnings per share amount presented during the year ended 31 July 2018.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	2019 HK$'000	2018 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company, used in the basic earnings/(loss) per share calculation	**(77,645)**	263,840
Effect of dilutive potential ordinary shares arising from adjustment to the share of profit of a subsidiary based on dilution of its earnings per share *	**(167)**	(1,572)
Earnings/(loss) for the purpose of diluted earnings/(loss) per share	**(77,812)**	262,268

* *Balance represented the decrease in the Group's proportionate interest in the earnings of Lai Fung of HK$167,000 (2018: HK$1,572,000) assuming all dilutive outstanding share options of Lai Fung were exercised to subscribe for ordinary shares of Lai Fung at the beginning of the year.*

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**1,491,854,598**	1,491,854,598
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	2,641,251
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculation	**1,491,854,598**	1,494,495,849

12. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Serviced apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Theme park HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:										
At 1 August 2017		322,739	2,286,657	598,902	189,061	31,769	27,495	–	730,155	4,186,778
Finance costs capitalised	8	–	–	–	–	–	–	–	47,830	47,830
Additions		–	–	97,468	69,111	3,550	3,297	–	733,859	907,285
Write-off		–	–	(19,886)	(15,792)	–	(86)	–	–	(35,764)
Disposals		–	(1,862)	(51)	(6,420)	(2,169)	(750)	–	–	(11,252)
Disposal of subsidiaries	42	–	–	(626)	(610)	(1,085)	(672)	–	–	(2,993)
Exchange realignment		(1,754)	(8,368)	(3,601)	(629)	17	(95)	–	(5,696)	(20,126)
At 31 July 2018 and 1 August 2018		320,985	2,276,427	672,206	234,721	32,082	29,189	–	1,506,148	5,071,758
Finance costs capitalised	8	–	–	–	–	–	–	–	90,575	90,575
Additions		–	–	57,764	26,000	5,359	5,955	–	1,261,026	1,356,104
Transfers in/(out)		–	–	–	–	–	–	1,540,002	(1,540,002)	–
Write-off		–	–	(52,139)	(6,005)	–	(1,097)	–	–	(59,241)
Disposals		–	(9)	–	(2,911)	(1,911)	(702)	–	–	(5,533)
Transfer to assets classified as held for sale		–	(75,181)	–	–	–	–	–	–	(75,181)
Disposal of subsidiaries	42	–	–	–	(8)	–	(409)	–	–	(417)
Exchange realignment		(1,393)	(13,987)	(4,991)	(1,068)	(204)	(210)	–	(18,644)	(40,497)
At 31 July 2019		**319,592**	**2,187,250**	**672,840**	**250,729**	**35,326**	**32,726**	**1,540,002**	**1,299,103**	**6,337,568**
Accumulated depreciation and impairment:										
At 1 August 2017		98,744	528,912	351,482	118,253	28,145	19,680	–	–	1,145,216
Depreciation provided during the year		8,700	62,818	78,620	24,179	1,389	2,995	–	–	178,701
Impairment provided during the year		–	–	10,000	–	–	–	–	–	10,000
Write-off		–	–	(19,485)	(15,266)	–	(81)	–	–	(34,832)
Disposals		–	–	(50)	(6,122)	(1,952)	(768)	–	–	(8,892)
Disposal of subsidiaries	42	–	–	(465)	(412)	(1,027)	(499)	–	–	(2,403)
Exchange realignment		(486)	(2,772)	(3,350)	(245)	(26)	(118)	–	–	(6,997)
At 31 July 2018 and 1 August 2018		106,958	588,958	416,752	120,387	26,529	21,209	–	–	1,280,793
Depreciation provided during the year		8,608	61,172	62,597	27,180	2,136	3,114	–	–	164,807
Impairment provided during the year		–	–	40,850	–	–	–	–	–	40,850
Write-off		–	–	(51,626)	(5,865)	–	(1,097)	–	–	(58,588)
Disposals		–	–	–	(2,309)	(1,783)	(568)	–	–	(4,660)
Transfer to assets classified as held for sale		–	(7,072)	–	–	–	–	–	–	(7,072)
Disposal of subsidiaries	42	–	–	–	(8)	–	(375)	–	–	(383)
Exchange realignment		(658)	(2,955)	(4,710)	(746)	(101)	(158)	–	–	(9,328)
At 31 July 2019		**114,908**	**640,103**	**463,863**	**138,639**	**26,781**	**22,125**	**-**	**-**	**1,406,419**
Net carrying amount:										
At 31 July 2019		**204,684**	**1,547,147**	**208,977**	**112,090**	**8,545**	**10,601**	**1,540,002**	**1,299,103**	**4,931,149**
At 31 July 2018		214,027	1,687,469	255,454	114,334	5,553	7,980	–	1,506,148	3,790,965

12. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 July 2019, certain serviced apartments (including related leasehold improvements) with an aggregate carrying amount of HK$1,208,645,000 (2018: HK$1,282,684,000) were pledged to banks to secure certain bank borrowings of the Group. Details were further set out in note 31(a) to the financial statements.

As at 31 July 2018, certain construction in progress with an aggregate carrying amount of HK$909,720,000 were pledged to banks to secure certain bank borrowings of the Group. Details were further set out in note 31(b) to the financial statements.

During the year ended 31 July 2019, the impairment loss of HK$40,850,000 (2018: HK$10,000,000) represented the write-down of the carrying amounts of leasehold improvements of certain cinemas to their recoverable amounts because the market conditions were out of the management's expectation. The estimated recoverable amounts as at 31 July 2019 were determined based on their value in use amounts estimated by using discount rates ranged from 12.0% to 14.5% (2018: 14.5%).

13. PROPERTIES UNDER DEVELOPMENT

	Note	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period		**2,133,029**	1,561,523
Finance costs capitalised	8	**105,774**	87,857
Additions (including capitalisation of prepaid land lease payments of HK$14,463,000 (2018: HK$15,835,000))		**717,475**	552,975
Amortisation of prepaid land lease payments		**(14,463)**	(15,835)
Transfer to completed properties for sale		**(382,847)**	–
Write-down of properties under development to net realisable value		**–**	(38,222)
Exchange realignment		**(29,556)**	(15,269)
At the end of the reporting period		**2,529,412**	2,133,029
Amount classified as current assets		**(1,815,822)**	(1,722,872)
Non-current portion		**713,590**	410,157

As at 31 July 2019, certain properties under development with an aggregate carrying amount of HK$1,085,322,000 (2018: HK$1,371,434,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 31(c) to the financial statements.

Included in properties under development were prepaid land lease payments, the movements of which during the year are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period	**873,257**	895,396
Amortised during the year	**(14,463)**	(15,835)
Transfer to completed properties for sale	**(36,546)**	–
Exchange realignment	**(11,446)**	(6,304)
At the end of the reporting period	**810,802**	873,257

14. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
Completed investment properties	**12,825,100**	12,826,200
Investment properties under construction, at fair value	**6,597,099**	4,330,900
Investment properties under construction, at cost *	**1,002,601**	1,444,000
	20,424,800	18,601,100

* *Certain investment properties under construction were carried at cost as at the end of the reporting period as such properties were under the planning or resettlement stage and their fair values were not reliably measurable.*

	Note	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period		**18,601,100**	16,903,419
Finance costs capitalised	8	**147,771**	83,472
Other additions		**1,722,074**	642,063
Net gain from fair value adjustments		**211,500**	857,297
Additions under swap of properties		**–**	329,294
Transfer from completed properties for sale		**–**	16,263
Impairment provided		**–**	(55,658)
Exchange realignment		**(257,645)**	(175,050)
At the end of the reporting period		**20,424,800**	18,601,100

The completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 44(b) to the financial statements.

As at 31 July 2019, certain investment properties with an aggregate carrying amount of HK$10,890,290,000 (2018: HK$11,575,170,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 31(d) to the financial statements.

During the year ended 31 July 2018, the impairment loss of HK$55,658,000 represented the write-down of the carrying amount of an investment property under construction at cost to its recoverable amount. The recoverable amount of the impaired property as at 31 July 2018 of HK$1,444,000,000 was based on its value in use amount estimated by using a discount rate of 4.75%.

Valuation processes of the Group

Each year, the Group's management appoints an external valuer to be responsible for the external valuations of the Group's properties (the "**Property Valuers**"). Selection criteria of an external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Property Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The valuation techniques used in prior years have been consistently applied in the current year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's completed investment properties and investment properties under construction stated at fair value were revalued by Knight Frank, an independent professionally qualified valuer.

14. INVESTMENT PROPERTIES (continued)

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

The Group's investment properties consist of commercial properties in Mainland China.

For completed investment properties, valuations are based on the income approach and market approach. The income approach is based on capitalisation of the net income and the reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to valuers' view of recent lettings, within the subject properties and other comparable properties. The market approach is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject properties and comparable properties.

For investment properties under construction stated at fair value, the Group has valued such properties on the basis that they will be developed and completed in accordance with the Group's latest development plans. Valuations are based on the residual method, which is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk associated with the estimated capital value of the proposed development assuming completed as at the date of valuation.

Information about fair value measurement using significant unobservable inputs (Level 3)

2019

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income approach	Average unit market rent per month (HK$/sq.m.)	44 – 354	Note 1
		Capitalisation rate	4.25% – 7.50%	Note 2
Residential properties	Market approach	Average market unit rate (HK$/sq.m.)	157,000	Note 3
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m.)	14,200 – 79,000	Note 4
		Developer's profit margin	2% – 4.5%	Note 5
		Budgeted costs to completion (HK$)	283,700,000 – 985,200,000	Note 6

14. INVESTMENT PROPERTIES (continued)

Valuation techniques (continued)

Information about fair value measurement using significant unobservable inputs (Level 3) (continued)

2018

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income approach	Average unit market rent per month (HK$/sq.m.)	44 – 360	Note 1
		Capitalisation rate	4.25% – 7.50%	Note 2
Residential properties	Market approach	Average market unit rate (HK$/sq.m.)	159,000	Note 3
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m.)	14,400 – 88,000	Note 4
		Developer's profit margin	5% – 9%	Note 5
		Budgeted costs to completion (HK$)	1,156,700,000 – 2,062,500,000	Note 6

Notes:

1. *The higher the market rent, the higher the fair value*
2. *The higher the capitalisation rate, the lower the fair value*
3. *The higher the market unit rate, the higher the fair value*
4. *The higher the gross development value, the higher the fair value*
5. *The higher the developer's profit margin, the lower the fair value*
6. *The higher the budgeted costs to completion, the lower the fair value*

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

15. FILM RIGHTS

	HK$'000
Cost:	
At 1 August 2017	276,361
Disposal	(25)
At 31 July 2018 and 1 August 2018	276,336
Additions	1,760
Disposal	(109)
At 31 July 2019	**277,987**
Accumulated amortisation and impairment:	
At 1 August 2017	255,401
Provided during the year	9,755
Disposal	(25)
At 31 July 2018 and 1 August 2018	265,131
Provided during the year	6,357
Write-back of impairment during the year	(18,000)
Disposal	(109)
At 31 July 2019	**253,379**
Net carrying amount:	
At 31 July 2019	**24,608**
At 31 July 2018	11,205

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability/future economic benefits of film rights and the corresponding recoverable amounts. The estimated recoverable amounts as at 31 July 2019 and 31 July 2018 were determined based on the present value of expected future revenues and related cash flows arising from the distribution and sub-licensing of the film rights, which were derived from discounting the projected cash flows using a discount rate of approximately 15% (2018: 15%).

16. FILM PRODUCTS

	Note	HK$'000
Cost:		
At 1 August 2017		1,295,404
Additions, net		(927)
Transfer from films under production	24	275,819
Exchange realignment		(1,063)
At 31 July 2018 and 1 August 2018		1,569,233
Additions, net		2
Disposal of subsidiaries		(24)
Transfer from films under production	24	214,870
Sale of film products		(150,913)
Exchange realignment		(1,346)
At 31 July 2019		**1,631,822**
Accumulated amortisation and impairment:		
At 1 August 2017		1,169,483
Provided during the year		320,773
Exchange realignment		(1,240)
At 31 July 2018 and 1 August 2018		1,489,016
Provided during the year		69,019
Disposal of subsidiaries		(24)
Exchange realignment		(1,211)
At 31 July 2019		**1,556,800**
Net carrying amount:		
At 31 July 2019		**75,022**
At 31 July 2018		80,217

In light of the circumstances of film industry, the Group regularly reviewed its film products to assess marketability/future economic benefits of film products and the corresponding recoverable amounts. The estimated recoverable amounts as at 31 July 2019 and 31 July 2018 were determined based on the present value of expected future revenues and related cash flows arising from the distribution and sub-licensing of the film products, which were derived from discounting the projected cash flows using a discount rate of 15% (2018: 15%).

17. MUSIC CATALOGS

	HK$'000
Cost:	
At 1 August 2017, 31 July 2018, 1 August 2018 and 31 July 2019	**150,834**
Accumulated amortisation and impairment:	
At 1 August 2017	139,396
Provided during the year	1,781
At 31 July 2018 and 1 August 2018	141,177
Provided during the year	2,870
Write-back of impairment during the year	(8,842)
At 31 July 2019	**135,205**
Net carrying amount:	
At 31 July 2019	**15,629**
At 31 July 2018	9,657

In light of the circumstances of music licensing industry, the Group undertook a review of its library of music catalogs to assess the marketability/future economic benefits of respective music catalogs and the corresponding recoverable amounts. The estimated recoverable amounts as at 31 July 2019 and 31 July 2018 were determined based on the present value of expected future cash flows generated from the music catalogs, which were discounted using a discount rate of approximately 13% (2018: 13%).

18. GOODWILL

	HK$'000
Cost:	
At 1 August 2017, 31 July 2018, 1 August 2018 and 31 July 2019	**126,917**
Accumulated impairment:	
At 1 August 2017, 31 July 2018, 1 August 2018 and 31 July 2019	**44,477**
Net carrying amount:	
At 31 July 2019	**82,440**
At 31 July 2018	82,440

Impairment testing of goodwill

Goodwill acquired through business combination had been allocated to cash-generating units (the "**IGHL CGU**"), which are components of media and entertainment segment, film production and distribution segment and cinema operation segment, for impairment testing.

Intercontinental Group Holdings Limited and its subsidiaries is a group of IGHL CGU which generates cash inflows that are largely independent of the cash inflows from other assets.

As at 31 July 2019, the recoverable amount of the IGHL CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period with a growth rate approved by senior management, which is based on past experience and the management's expectation for market development. The discount rate applied to the cash flow projections is 14.5% (2018: 14.5%). The growth rate used to extrapolate the cash flows of the IGHL CGU beyond the five-year period is 3% (2018: 3%).

Assumptions were used in the value-in-use calculation of the IGHL CGU for 31 July 2019 and 31 July 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted profit – The basis used to determine the value assigned to the budgeted profit is the average profit achieved in the markets, adjusted for expected efficiency improvement, and expected market development.

Discount rate – The discount rate used is before tax.

19. OTHER INTANGIBLE ASSETS

	Artiste management and service agreements HK$'000	Online movie platform HK$'000	Total HK$'000
Cost:			
At 1 August 2017, 31 July 2018, 1 August 2018 and 31 July 2019	**35,932**	**2,500**	**38,432**
Accumulated amortisation:			
At 1 August 2017	20,794	1,081	21,875
Provided during the year	15,138	833	15,971
At 31 July 2018 and 1 August 2018	35,932	1,914	37,846
Provided during the year	–	586	586
At 31 July 2019	**35,932**	**2,500**	**38,432**
Net carrying amount:			
At 31 July 2019	**–**	**–**	**–**
At 31 July 2018	–	586	586

Artiste management and service agreements

Artiste management and service agreements represented agreements with various artistes and an artiste management team which the Group had the right for the provision of artiste management services to the artistes and procured the artiste management team to manage the daily operation of the subsidiaries.

Online movie platform

Online movie platform represented the development cost of a licensed online system for the distribution of certain licensed film rights of the Group.

20. INVESTMENTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	**(33,463)**	1,601,110
Amounts due from joint ventures	**61,053**	270,040
Provision for impairment #	**(4,597)**	(2,834)
	56,456	267,206
Total investments in joint ventures	**22,993**	1,868,316
Loans from a joint venture	**–**	644,698
Amount classified as current liabilities	**–**	(218,542)
Non-current portion	**–**	426,156

\# *As at 31 July 2019, impairment of HK$4,597,000 (2018: HK$2,834,000) was recognised for amounts due from joint ventures with carrying amounts of HK$4,597,000 (2018: HK$2,834,000) (before deducting the impairment loss) because these joint ventures have been loss-making for some time.*

The amounts due from joint ventures are unsecured, interest-free and repayable on demand but are not expected to be repayable within the next 12 months from the end of the reporting period, except for an amount of HK$11,349,000 (2018: HK$11,502,000) due from a joint venture which is interest bearing at The People's Bank of China Benchmark Loan Interest Rate. In the opinion of the directors, these amounts due from joint ventures are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investment in the joint ventures.

As at 31 July 2018, except for loans from a joint venture of HK$426,156,000 which bore interest at fixed rates of 3.05% to 4.20% per annum and were repayable in the second to third years from the end of the reporting period, the loans from a joint venture were unsecured, bore interest at a fixed rate of 3.05% per annum and were repayable within one year.

The joint ventures are accounted for using the equity method in these consolidated financial statements. During the year ended 31 July 2019, the Group received dividend income amounting to HK$1,604,755,000 (2018: Nil) from the joint ventures.

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs adjusted by the Group for equity accounting purposes.

20. INVESTMENTS IN JOINT VENTURES (continued)

The summarised financial information below represents amounts shown, after fair value adjustments, in the consolidated financial statements of Beautiwin Limited ("**Beautiwin**") and Guangzhou Beautiwin, the holder of Dolce Vita project in Guangzhou (collectively referred to as the "**Beautiwin Group**") prepared in accordance with HKFRSs:

	2018 HK$'000
Current assets (including cash and cash equivalents of HK$2,406,341,000)	3,394,419
Non-current assets	728,181
Total assets	4,122,600
Current liabilities	(166,934)
Non-current liabilities	(591,285)
Total liabilities	(758,219)

Reconciliation of the above summarised financial information of the Beautiwin Group to the carrying amount of the interests in the joint ventures recognised in the consolidated financial statements:

	2018 HK$'000
Net assets of the Beautiwin Group	3,364,381
Less: Non-controlling interests	(95,865)
	3,268,516
Lai Fung's 50% interest in the Beautiwin Group	1,634,258
Amount due from the Beautiwin Group	217,009
Carrying amount of the Group's interests in the Beautiwin Group as recorded in the consolidated financial statements	1,851,267

20. INVESTMENTS IN JOINT VENTURES (continued)

	2018 HK$'000
Revenue (including interest income of HK$78,819,000)	838,340
Cost of sales	(331,687)
Expenses (including depreciation charges of HK$232,000)	(141,289)
Income tax credit	484,134
Profit for the year	849,498
Other comprehensive loss for the year	(17,819)
Total comprehensive income for the year	831,679
The Group's share of profit of the Beautiwin Group	403,368
The Group's share of other comprehensive loss of the Beautiwin Group	(8,122)
The Group's share of total comprehensive income of the Beautiwin Group	395,246

During the year ended 31 July 2019, Guangzhou Beautiwin was wound up, and Beautiwin has declared and paid dividend of HK$1,603,755,000 (2018: Nil) to the Group. The release of exchange reserve upon winding-up of Guangzhou Beautiwin of HK$17,806,000 (2018: Nil) was debited to the consolidated income statement during the year ended 31 July 2019.

Aggregate financial information of joint ventures that are not individually material

	2019 HK$'000	2018 HK$'000
The Group's share of losses	**(25,424)**	(480)
The Group's share of other comprehensive income/(loss)	**(6,894)**	158
The Group's share of total comprehensive loss	**(32,318)**	(322)
Aggregate carrying amount of the Group's investments in joint ventures	**22,993**	17,049

21. INVESTMENTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net liabilities	**(15,199)**	(9,010)
Amounts due from associates	**21,003**	25,288
	5,804	16,278

Balances with the associates are unsecured, interest-free and repayable on demand but are not expected to be repayable in the next 12 months from the end of the reporting period. In the opinion of the directors, these amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investment in the associates.

The associates are accounted for using the equity method in these consolidated financial statements. During the year, the Group received dividend income amounting to HK$3,300,000 (2018: HK$3,000,000) from an associate.

During the year, the Group disposed of an associate for a cash consideration of HK$23,800,000 (2018: Nil). Gain on disposal of the associate of HK$19,705,000 (2018: Nil), net of professional expenses of HK$439,000 (2018: Nil), was recognised in the consolidated income statement.

As at 31 July 2019 and 31 July 2018, there were no material associates which principally affected the results for the year or formed a substantial portion of the net assets of the Group.

Aggregate financial information of associates that are not individually material

	2019 HK$'000	2018 HK$'000
The Group's share of profits and losses	**787**	(14,102)
The Group's share of other comprehensive loss	**(20)**	(15)
The Group's share of total comprehensive income/(loss)	**767**	(14,117)

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through profit or loss		
Unlisted investments, at fair value	**220,751**	–
Less: Portion classified as current	**(144,936)**	–
Non-current portion	**75,815**	–
Available-for-sale investments		
Unlisted investments, at cost	**–**	47,981
Unlisted investment, at fair value	**–**	66,380
	–	114,361

Included in above unlisted investments mainly represented fund investments and securities.

As at 31 July 2018, unlisted investments of the Group with a carrying amount of HK$47,981,000 were stated at cost less impairment because the variability in the range of reasonable fair value estimates was so significant that the directors were of the opinion that their fair value could not be measured reliably.

During the year ended 31 July 2018, the gross loss in respect of the Group's unlisted investment stated at fair value recognised in other comprehensive loss amounted to HK$14,677,000.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Deposits, prepayments and advances for artiste management, music production and film production	**184,440**	182,369
Other deposits, prepayments and other receivables	**549,596**	379,273
	734,036	561,642
Less: Portion classified as current	**(637,799)**	(441,526)
Non-current portion	**96,237**	120,116

Included in deposits, prepayments and other receivables as at 31 July 2019 were advances of HK$7,377,000 (2018: HK$7,476,000) due from film owners for the Group's investments in film projects. The advances are unsecured, repayable within next 12 months and have a fixed guarantee return of 16.5% (2018: 16.5%) on the principal amount.

Included in deposits, prepayments and other receivables as at 31 July 2019 were investments in entertainment events of HK$17,899,000 (2018: Nil) which are classified as financial assets at fair value through profit or loss.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (continued)

Movements in the loss allowance for impairment of deposits, prepayments and other receivables are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period	**53,568**	53,987
Impairment losses	**22,209**	15,924
Write-back of impairment losses	**(567)**	(618)
Write-off	**(889)**	(15,751)
Exchange realignment	**(114)**	26
At the end of the reporting period	**74,207**	53,568

The ECLs as at 31 July 2019 are estimated by applying a credit risk approach with reference to the historical loss record of the Group as at 31 July 2019. The loss allowance for impairment of advances and other receivables is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

As at 31 July 2018, included in the above loss allowance for impairment of advances and other receivables was a loss allowance for individually impaired receivables of HK$53,568,000 with a gross carrying amount of HK$57,191,000. The individually impaired receivables and advances relate to the portions of receivables that were not expected to be recovered. Except for the above impaired balances, none of the above assets was either past due or impaired and there was no recent history of default.

24. FILMS UNDER PRODUCTION AND FILM INVESTMENTS

	Notes	2019 HK$'000	2018 HK$'000
Films under production	(i)	**408,776**	469,585
Film investments, at fair value	(ii)	**8,466**	–
		417,242	469,585

Notes:

(i) *Films under production*

	Notes	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period		**469,585**	463,105
Additions (including the capitalisation of employee benefit expense of HK$7,964,000 (2018: Nil))		**236,994**	292,633
Transfer to film products	16	**(214,870)**	(275,819)
Impairment #		**(64,310)**	(5,614)
Disposal of subsidiaries	42	**(14,813)**	–
Exchange realignment		**(3,810)**	(4,720)
At the end of the reporting period		**408,776**	469,585

The impairment of films under production was made based on the management's estimation of recoverable amount against the carrying amount.

(ii) *Film investments, at fair value*

	2019 HK$'000	2018 HK$'000
Film investments classified as financial assets at fair value through profit or loss:		
At the beginning of the reporting period	**–**	–
Additions	**8,591**	–
Exchange realignment	**(125)**	–
At the end of the reporting period	**8,466**	–

25. DEBTORS

	2019 HK$'000	2018 HK$'000
Trade debtors	**241,917**	191,184
Impairment	**(9,410)**	(9,585)
	232,507	181,599

The trading terms of the Group (other than the Lai Fung Group) with its customers are mainly on credit. Invoices are normally payable within 30 to 90 days of issuance, except for certain well-established customers, where the terms are extended to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise its credit risk. Overdue balances are regularly reviewed by senior management. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's debtors are widely dispersed in different sectors and industries. The Group's debtors are non-interest-bearing.

The Lai Fung Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Serviced apartment charges are mainly settled by customers on a cash basis except for those corporate clients who maintain credit accounts with the Lai Fung Group, the settlement of which is in accordance with the respective agreements. Debtors of the Lai Fung Group are interest-free.

The Group does not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the trade debtors, net of loss allowance, based on payment due date, as at the end of the reporting period, is as follows:

	2019 HK$'000	2018 HK$'000
Trade debtors:		
Neither past due nor impaired	**133,404**	127,702
1 to 90 days past due	**84,424**	37,974
Over 90 days past due	**14,679**	15,923
	232,507	181,599

25. DEBTORS (continued)

Movements in the loss allowance for impairment of trade debtors are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of the reporting period	**9,585**	10,069
Impairment losses (note 7)	**693**	429
Write-off	**(868)**	(93)
Disposal of subsidiaries	**–**	(820)
At the end of the reporting period	**9,410**	9,585

Impairment under HKFRS 9 for the year ended 31 July 2019

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for grouping of various customer segments with shared risk characteristics. The provision matrix reflects the probability weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade debtors using a provision matrix analysed by payment due date:

As at 31 July 2019

		Past due		
	Current	1 to 90 days	Over 90 days	Total
Expected credit loss rate	0%	0%	39%	4%
Gross carrying amount (HK$'000)	133,404	84,424	24,089	241,917
Expected credit losses (HK$'000)	–	–	9,410	9,410

Impairment under HKAS 39 for the year ended 31 July 2018

Included in the above provision for impairment of trade debtors, which was measured based on incurred credit losses under HKAS 39, as at 31 July 2018 was a provision for individually impaired trade debtors of HK$9,585,000 with a gross carrying amount before provision of HK$9,585,000. The individually impaired trade debtors related to customers that were in default in settlements and no portion of the receivables was expected to be recovered.

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

26. CASH AND CASH EQUIVALENTS, PLEDGED AND RESTRICTED TIME DEPOSITS AND BANK BALANCES

	Notes	2019 HK$'000	2018 HK$'000
Cash and bank balances		**2,678,188**	2,389,992
Less: Pledged and restricted bank balances			
– Pledged for bank loans	31(f)	**(605,307)**	(230,893)
– Pledged for banking facilities Δ		**(86,480)**	–
– Restricted *		**(98,954)**	(407,343)
		(790,741)	(638,236)
Non-pledged and non-restricted cash and bank balances		**1,887,447**	1,751,756
Time deposits		**1,093,727**	819,809
Less: Pledged and restricted time deposits			
– Pledged for bank loans	31(f)	**(367,650)**	(419,816)
– Pledged for banking facilities		**(120)**	(120)
– Restricted *		**(15,384)**	(15,590)
		(383,154)	(435,526)
Non-pledged and non-restricted time deposits		**710,573**	384,283
Cash and cash equivalents		**2,598,020**	2,136,039

Δ *The balance was pledged to a bank in respect of guarantee letters issued by the bank in favor of a government authority.*

* *In accordance with the relevant laws and regulations imposed by the government authorities concerned or the terms and conditions set out in the relevant bank loan agreements, proceeds from the pre-sale of certain properties are required to be deposited into designated bank accounts and restricted to be used in the relevant project construction. Such restriction will be uplifted upon repayment of the relevant bank loans or the attainment of the relevant ownership certificates issued by the authorities. As at 31 July 2019, the balance was HK$72,107,000 (2018: HK$219,943,000).*

In accordance with the relevant laws and regulations imposed by the government authorities concerned, estimated resettlement costs of certain sites for development are required to be deposited into designated bank accounts. Such deposits are restricted to be used for the resettlement and such restriction will be uplifted upon completion of the resettlement. As at 31 July 2019, the balance amounted to HK$24,311,000 (2018: HK$24,563,000).

In accordance with the relevant clauses of certain bank loan facilities, proceeds from the drawdown of bank loans are required to be deposited into designated bank accounts and restricted to be used for settlement of construction costs of the relevant projects. As at 31 July 2019, the balance amounted to HK$2,441,000 (2018: HK$162,244,000).

In accordance with the relevant laws and regulations imposed by the government authority concerned, certain bank balances and deposits are required to be placed into designated bank accounts restricted as to use. As at 31 July 2019, the balances amounted to HK$15,479,000 (2018: HK$16,183,000).

26. CASH AND CASH EQUIVALENTS, PLEDGED AND RESTRICTED TIME DEPOSITS AND BANK BALANCES (continued)

The conversion of Renminbi ("**RMB**") denominated time deposits and cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of Mainland China are subject to the relevant rules and regulations of foreign exchanges control promulgated by the government authorities concerned. As at 31 July 2019, such RMB denominated time deposits and cash and bank balances of the Group amounted to HK$2,555,007,000 (2018: HK$2,372,506,000).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are mainly made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. Bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

27. ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 July 2019, two blocks of serviced apartments located in Zhongshan (namely, STARR Resort Residence Zhongshan) were offered for sale. The serviced apartments were previously classified as property, plant and equipment. The management has committed to a plan to sell with an active programme to locate buyers already initiated and the disposal is expected to be completed in the ensuing year. As a result, the serviced apartments with a carrying amount of HK$68,186,000 were transferred to assets classified as held for sale.

28. CREDITORS AND ACCRUALS

An ageing analysis of the trade creditors, prepared based on the date of receipt of the goods and services purchased/payment due date, as at the end of the reporting period, is as follows:

	Note	2019 HK$'000	2018 HK$'000
Trade creditors:			
Less than 30 days		**959,287**	197,917
31 to 60 days		**4,390**	53,817
61 to 90 days		**5,734**	3,767
Over 90 days		**8,456**	6,416
		977,867	261,917
Other creditors and accruals		**1,319,791**	1,699,651
Put option liabilities	29	**279,720**	–
		2,577,378	1,961,568

Trade creditors and other creditors are interest-free and have an average credit term of three months.

29. PUT OPTION LIABILITIES

On 31 December 2018, Rosy Commerce Holdings Limited ("**Rosy Commerce**", a company indirectly owned by Lai Fung and the Company as to 80% and 20%, respectively) and China Cinda (HK) Asset Management Co., Limited ("**Cinda**"), an independent third party, entered into two investment agreements (the "**Agreements**"). Pursuant to the Agreements, Cinda agrees to invest, by way of share subscription and/or share sale, in two wholly-owned subsidiaries of Rosy Commerce, namely Harmonic Run Limited ("**HRL**") and Glorious Stand Limited ("**GSL**") at a total consideration (the "**Consideration**") of approximately US$35,752,000 (the "**Transaction**"). The Transaction was completed on 25 January 2019 (the "**Completion Date**") and Cinda became a holder of 30% equity interests in HRL and GSL.

On the Completion Date, Rosy Commerce and Cinda further entered into two shareholders' agreements, pursuant to the buy-back clause contained therein, upon the occurrence of certain triggering events during the six-year investment period, Rosy Commerce has a contractual obligation to buy-back the 30% equity interests in each of HRL and GSL from Cinda at an aggregate amount equal to the Consideration. Accordingly, financial liabilities of approximately US$35,752,000 (equivalent to approximately HK$279,720,000) are recorded as put option liabilities under "Creditors and accruals" of the consolidated statement of financial position as at 31 July 2019.

Further details of the Transaction are set out in a joint announcement of Lai Fung, LSD, LSG and the Company dated 2 January 2019.

30. DEPOSITS RECEIVED, DEFERRED INCOME AND CONTRACT LIABILITIES

An analysis of the deposits received, deferred income and contract liabilities is as follows:

	2019 **HK$'000**	2018 HK$'000
Deposits received and deferred income	**488,054**	801,367
Contract liabilities	**535,237**	–
	1,023,291	801,367
Amount classified as current	**(875,415)**	(658,487)
Non-current portion	**147,876**	142,880

As at 31 July 2019 and 1 August 2018, the Group's total contract liabilities of HK$535,237,000 and HK$555,740,000, respectively, mainly represented consideration received in advance from customers from sales of properties and deferred revenue. The decrease in total contract liabilities during the year ended 31 July 2019 was mainly due to recognition of revenue.

31. INTEREST-BEARING BANK LOANS

	2019		2018	
	Effective interest rate (%)	**HK$'000**	Effective interest rate (%)	HK$'000
Current:				
Secured	**4.75 – 6.14**	**431,522**	5.23 – 6.47	200,669
Unsecured	**3.92 – 6.81**	**104,458**	3.71 – 4.21	147,820
		535,980		348,489
Non-current:				
Secured	**4.75 – 6.14**	**4,356,815**	4.75 – 6.47	3,335,174
Unsecured	**5.28 – 6.81**	**1,197,335**	6.81	237,290
		5,554,150		3,572,464
		6,090,130		3,920,953
Maturity profile:				
Within one year		**535,980**		348,489
In the second year		**2,966,309**		455,800
In the third to fifth years, inclusive		**1,447,812**		2,922,540
Beyond five years		**1,140,029**		194,124
		6,090,130		3,920,953

On 18 March 2016, Lai Fung (i) as the borrower and, inter alios, the banks named therein as lenders entered into an offshore facility agreement in relation to facilities of HK$2,650,000,000 (the "**Offshore Facilities**"); and (ii) as the guarantor and, inter alios, certain subsidiaries of Lai Fung as borrowers and banks named therein as lenders entered into an onshore facility agreement in relation to facilities of approximately HK$936,000,000 equivalent (the "**Onshore Facilities**").

As at 31 July 2019, HK$2,160,000,000 (2018: HK$1,080,000,000) and HK$852,865,000 (2018: HK$878,001,000) were outstanding under the Offshore Facilities and the Onshore Facilities, respectively.

31. INTEREST-BEARING BANK LOANS (continued)

Certain bank loans of the Group as at the end of the reporting period were secured by:

(a) mortgages over certain serviced apartments (including related leasehold improvements) of the Group with an aggregate carrying amount of HK$1,208,645,000 (2018: HK$1,282,684,000) (note 12);

(b) mortgages over certain construction in progress of HK$909,720,000 as at 31 July 2018 (note 12);

(c) mortgages over certain properties under development of the Group with an aggregate carrying amount of HK$1,085,322,000 (2018: HK$1,371,434,000) (note 13);

(d) mortgages over certain investment properties of the Group with an aggregate carrying amount of HK$10,890,290,000 (2018: HK$11,575,170,000) (note 14);

(e) charges over the entire equity interests in certain subsidiaries of the Company (note 51); and

(f) charges over bank balances and time deposits of the Group with an aggregate carrying amount of HK$972,957,000 (2018: HK$650,709,000) (note 26).

As at 31 July 2018, charges over securities accounts and share mortgage in respect of 165,485,406 ordinary shares in Lai Fung and 1,415,132,837 ordinary shares of MAGHL were made to secure certain interest-bearing bank loans of the Group which were repaid during the year ended 31 July 2018. During the year ended 31 July 2019, the charges over securities accounts and share mortgage have been released (note 51).

Pursuant to an intercreditor agreement dated 28 March 2013 (as amended, restated and supplemented from time to time) (the "**Intercreditor Agreement**"), (i) the lenders under the Offshore Facilities, (ii) the holder of the fixed rate senior notes and (iii) the holders of future permitted pari passu secured indebtedness, if any, are entitled to the benefit of a lien on a package of securities shared on a pari passu basis.

Upon and after the maturity of the fixed rate senior notes on 25 April 2018, the holders of the fixed rate senior notes ceased to be a party to the Intercreditor Agreement in accordance with the terms thereof.

32. OTHER BORROWINGS

	Notes	2019 Effective contractual interest rate (%)	2019 HK$'000	2018 Effective contractual interest rate (%)	2018 HK$'000
Current:					
Other borrowing – unsecured	(i)	–	41,440	–	–
Non-current:					
Interest-bearing borrowings – unsecured	(ii)	5.13	209,888	5.00	204,122
Other borrowing – unsecured	(iii)	–	53,006	–	53,719
			262,894		257,841
			304,334		257,841
Maturity profile:					
Within one year			41,440		–
In the second year			262,894		257,841
			304,334		257,841

Notes:

(i) *Rosy Commerce and Cinda entered into two shareholders' loan agreements on 25 January 2019, pursuant to which, Cinda provided non-interest-bearing initial shareholder loans of an aggregate amount of USD equivalent of RMB36,000,000 (equivalent to approximately HK$41,440,000) to HRL and GSL. Such shareholders' loans are repayable upon the earlier of, inter alia, the sixth anniversary of the date of the two shareholders' loan agreements, or the occurrence of the buy-back triggering events mentioned in note 29 to the financial statements.*

(ii) *The unsecured other borrowings represented amounts due to the late Mr. Lim Por Yen which bear interest at The Hongkong and Shanghai Banking Corporation Limited prime rate per annum except for the accrued interest portion with an amount of HK$96,950,000 (2018: HK$91,184,000) which is interest-free.*

(iii) *The unsecured other borrowing represented an amount due to the late Mr. Lim Por Yen which is interest-free.*

At the request of the Group, the executor of Mr. Lim Por Yen's estate confirmed to the Group that no demand for the repayment of the outstanding other borrowings or the related interest would be made within one year from the end of the respective reporting periods.

33. CONVERTIBLE NOTES

Pursuant to a subscription agreement entered into between TFN Media Co., Ltd. ("**TFN Media**") and MAGHL on 17 April 2015, among others, MAGHL conditionally agreed to issue, and TFN Media conditionally agreed to subscribe for 3-year zero coupon convertible notes in an aggregate principal amount of HK$130,000,000 (the "**TFN Convertible Notes**"), which are convertible at the option of the holder into MAGHL's ordinary shares during the period commencing on the first day of the TFN Convertible Notes and expiring on that date which is five business days preceding the maturity date.

Pursuant to each of subscription agreements entered into by MAGHL with each of Perfect Sky Holdings Limited ("**Perfect Sky**", a wholly-owned subsidiary of the Company), Fubon Financial Holding Venture Capital Corp., Kbro Media Co., Ltd., and MOMO.COM Inc. (collectively the "**Subscribers**") on 17 April 2015, among others, MAGHL conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for 3-year zero coupon convertible notes in an aggregate principal amount of HK$186,840,000 (the "**Specific Mandate Convertible Notes**"), which are convertible at the option of the holders into MAGHL's ordinary shares during the period commencing on the first day of the Specific Mandate Convertible Notes and expiring on the date which is five business days preceding the maturity date.

(i) TFN Convertible Notes

The TFN Convertible Notes were redeemed on 14 May 2018. Upon redemption, liability component of HK$130,000,000 of the TFN Convertible Notes was repaid by cash and equity component of HK$30,951,000 of the TFN Convertible Notes was transferred from non-controlling interests to retained profits. Interest charged for the TFN Convertible Notes for the year ended 31 July 2018 was HK$8,849,000.

(ii) Specific Mandate Convertible Notes

The Specific Mandate Convertible Notes were redeemed on 3 July 2018. Upon redemption and after eliminating the subscription by Perfect Sky, the liability component of HK$66,840,000 of the Specific Mandate Convertible Notes was repaid by cash and equity component of HK$16,135,000 of the Specific Mandate Convertible Notes was transferred from non-controlling interest to retained profits. Interest charged for the Specific Mandate Convertible Notes for the year ended 31 July 2018 was HK$5,645,000.

34. GUARANTEED NOTES

US$350,000,000 5.65% Guaranteed Notes due 2023

On 18 January 2018, Lai Fung Bonds (2018) Limited, a wholly-owned subsidiary of Lai Fung, issued US$350,000,000 of 5.65% fixed rate guaranteed notes, which will mature on 18 January 2023 for bullet repayment. The guaranteed notes bear interest from 18 January 2018 and are payable semi-annually in arrears on 18 January and 18 July of each year, commencing on 18 July 2018 (each, an "**Interest Payment Date – Guaranteed Notes**"). The guaranteed notes are listed on the Stock Exchange.

The guaranteed notes are guaranteed by Lai Fung and also have the benefit of a keepwell deed and a deed of equity interest purchase undertaking from LSD.

The guaranteed notes were issued for the refinancing of the fixed rate senior notes which matured on 25 April 2018 and for general corporate purposes. The net proceeds from the guaranteed notes after deducting issue expenses amounted to approximately HK$2,712,758,000.

No guaranteed notes were repurchased during the year (2018: Nil).

The guaranteed notes recognised in the consolidated statement of financial position are calculated as follows:

	2019 **HK$'000**	2018 HK$'000
Carrying amount at the beginning of the reporting period	**2,725,518**	–
Issuance of the guaranteed notes	**–**	2,737,000
Issue expenses	**–**	(24,242)
Amortisation during the year (note 8)	**4,440**	2,260
Exchange realignment	**(9,101)**	10,500
Carrying amount at the end of the reporting period	**2,720,857**	2,725,518

The effective interest rate of the guaranteed notes is 5.86% (2018: 5.86%) per annum.

In connection with the guaranteed notes, Lai Fung entered into the CCS – Guaranteed Notes (as defined in note 35) with financial institutions, which have effectively converted the guaranteed notes into fixed rate HK$ denominated debts. Taking into account the CCS – Guaranteed Notes, the effective interest rate of the guaranteed notes is 5.58% (2018: 5.58%) per annum. Details of the CCS – Guaranteed Notes are set out in note 35 to the financial statements.

35. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 HK$'000	2018 HK$'000
Cross currency swap agreement (the "**CCS**") for guaranteed notes (the "**CCS – Guaranteed Notes**")	**20,581**	2,531

The carrying amounts of the CCS – Guaranteed Notes are the same as their fair values.

The movements in the financial assets arising from the CCS – Guaranteed Notes during the year are as follows:

2019

	Note	CCS – Guaranteed Notes HK$'000
Carrying amount as at 1 August 2018		**2,531**
Fair value gains credited to the consolidated income statement	7	**18,050**
Carrying amount as at 31 July 2019		**20,581**

2018

	CCS – Guaranteed Notes HK$'000	CCS – Fixed Rate Senior Notes HK$'000	Total HK$'000
Carrying amount as at 1 August 2017	–	(208,223)	(208,223)
Fair value gains credited to the hedge reserve	–	161,845	161,845
Fair value gains credited to the consolidated income statement	2,531	463	2,994
Settlement upon maturity of CCS	–	45,915	45,915
Carrying amount as at 31 July 2018	2,531	–	2,531

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

CCS – Guaranteed Notes

During the year ended 31 July 2018, the Lai Fung Group has entered into the CCS – Guaranteed Notes with the financial institutions with an aggregate nominal amount of US$350,000,000 in connection with the guaranteed notes as detailed in note 34 to the financial statements.

Pursuant to the terms of the CCS – Guaranteed Notes, the Lai Fung Group receives an amount semi-annually calculated based on a fixed rate of 5.65% per annum on the aggregate notional amount of US$350,000,000 during the period from 18 January 2018 to 18 January 2023 before each Interest Payment Date – Guaranteed Notes (as defined in note 34), and pays an amount semi-annually calculated based on a fixed rate of 5.37% per annum on the aggregate notional amount of HK$2,738,225,000 (being the HK$ equivalent amount of US$350,000,000 translated at a contracted exchange rate of US$1 to HK$7.8235) during the period from 18 January 2018 to 18 January 2023 before each Interest Payment Date – Guaranteed Notes. Before 18 January 2023, the Lai Fung Group will receive the aggregate notional amount of US$350,000,000 and will pay the aggregate notional amount of HK$2,738,225,000.

The CCS – Guaranteed Notes are not designated for hedging purposes and are measured at fair value through profit or loss. Changes in the fair value of the CCS – Guaranteed Notes amounting to HK$18,050,000 (2018: HK$2,531,000) were credited to the consolidated income statement during the year.

CCS – Fixed Rate Senior Notes

On 25 April 2013, Lai Fung Group issued RMB1,800,000,000 (equivalent to approximately HK$2,243,270,000) of 6.875% fixed rate senior notes, which matured on 25 April 2018 for bullet repayment. The fixed rate senior notes bore interest from 25 April 2013 and were payable semi-annually in arrears on 25 April and 25 October of each year, commencing on 25 October 2013 (each, an "**Interest Payment Date – Fixed Rate Senior Notes**"). On 25 April 2013, Lai Fung Group entered into cross currency swap agreements for the fixed rate senior notes (the "**CCS – Fixed Rate Senior Notes**") with financial institutions with an aggregate nominal amount of RMB1,800,000,000 for the purpose of hedging the foreign currency risk arising from the fixed rate senior notes.

Pursuant to the terms of the CCS – Fixed Rate Senior Notes, the Lai Fung Group received interest payments semi-annually at a fixed rate of 6.875% per annum on the aggregate notional amount of RMB1,800,000,000 during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date – Fixed Rate Senior Notes, and made interest payments semi-annually at a fixed rate of 6.135% per annum on the aggregate notional amount of US$291,616,000 (being the US$ equivalent amount of RMB1,800,000,000, translated at a contracted exchange rate of US$1 to RMB6.1725) during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date – Fixed Rate Senior Notes. Right before 25 April 2018, the Lai Fung Group received the aggregate notional amount of RMB1,800,000,000 and paid the aggregate notional amount of approximately US$291,616,000.

The CCS – Fixed Rate Senior Notes were designated as hedging instruments in respect of the fixed rate senior notes and the balances of CCS – Fixed Rate Senior Notes varied with the changes in foreign exchange forward rates.

35. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

CCS – Fixed Rate Senior Notes (continued)

On 25 April 2018, the fixed rate senior notes and the CCS – Fixed Rate Senior Notes both matured. Total fair value gains of HK$38,049,000 (note 7), comprising the fair value gains of CCS of HK$2,994,000 and the release of hedge reserve related to CCS – Fixed Rate Senior Notes of HK$35,055,000 were credited to the consolidated income statement and included in "Other operating expenses, net" during the year ended 31 July 2018.

The effectiveness of the cash flow hedges of the fixed rate senior notes was assessed semi-annually by the Lai Fung Group. As at 31 January 2018, the cash flow hedges of the fixed rate senior notes were assessed to be highly effective. A net gain on the cash flow hedges of HK$26,886,000 for the period between 1 August 2017 and 31 January 2018 of which HK$13,648,000 and HK$13,238,000 were attributable to the owners of the Company and the non-controlling interests, respectively, was included in the hedge reserve as follows:

	2018 HK$'000
Total fair value gains included in the hedge reserve	161,845
Transferred from the hedge reserve to the consolidated income statement for the exchange loss of the fixed rate senior notes	(134,959)
Net gain on cash flow hedges	26,886

36. LOANS FROM A FELLOW SUBSIDIARY/A RELATED COMPANY

The balances represented loans from Hibright Limited ("**Hibright**"), a wholly-owned subsidiary of LSD. Except for loans from Hibright of HK$50,000,000 (2018: HK$650,000,000) which are unsecured, interest-bearing at 5.04% per annum (2018: 5.05% to 5.40% per annum) and are repayable in the second year from the end of the reporting period, the loans from Hibright are unsecured, interest-bearing at 5.36% to 5.58% per annum and are repayable within one year.

LSD was a substantial shareholder of the Company as at 31 July 2018 and has become an intermediate holding company of the Company since 8 August 2018. Accordingly, the loans from Hibright were presented as loans from a fellow subsidiary as at 31 July 2019 and loans from a related company as at 31 July 2018.

37. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**9,108**	4,189
Deferred tax liabilities	**(3,351,747)**	(3,318,953)
	(3,342,639)	(3,314,764)

The movements of deferred tax assets/(liabilities) during the year are as follows:

	Note	Accelerated tax depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Withholding tax HK$'000	Losses available for offsetting against future taxable profits HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 August 2017		(537,869)	(569,243)	(1,885,323)	(111,851)	8,707	(2,655)	(3,098,234)
Deferred tax credited/(charged) to the income statement during the year	10	(63,220)	24,352	(214,324)	(12,993)	13,581	2,728	(249,876)
Exchange realignment		6,957	2,328	24,708	–	(574)	(73)	33,346
At 31 July 2018 and 1 August 2018		(594,132)	(542,563)	(2,074,939)	(124,844)	21,714	–	(3,314,764)
Deferred tax credited/(charged) to the income statement during the year	10	(52,417)	14,437	(52,875)	10,959	(10,440)	206	(90,130)
Deferred tax utilised during the year		–	–	–	20,927	–	–	20,927
Exchange realignment		8,446	2,845	30,104	–	(68)	1	41,328
At 31 July 2019		**(638,103)**	**(525,281)**	**(2,097,710)**	**(92,958)**	**11,206**	**207**	**(3,342,639)**

At 31 July 2019, the Group had tax losses arising in Hong Kong of HK$1,768,159,000 (2018: HK$1,686,208,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

37. DEFERRED TAX (continued)

As at 31 July 2019, the Group had tax losses arising in Mainland China of HK$410,253,000 (2018: HK$330,320,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses could be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is either 5% or 10%. The Group is therefore liable for withholding taxes on dividends to be distributed by those subsidiaries and joint ventures established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 July 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of certain subsidiaries and joint ventures established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$13,094,000 as at 31 July 2019 (2018: HK$13,450,000).

38. SHARE CAPITAL

Shares

	2019		2018	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**2,500,000**	**1,250,000**	2,500,000	1,250,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**1,491,855**	**745,927**	1,491,855	745,927

Share options

Details of the share option schemes of the Company, MAGHL and Lai Fung and the share options issued under the respective schemes are included in note 39 to the financial statements.

39. SHARE OPTION SCHEMES

(a) The Company

2005 Share Option Scheme

On 23 December 2005, the Company adopted the share option scheme (the "**2005 Share Option Scheme**") for the purpose of giving any eligible employee, director of the Company or any of its subsidiaries, agent or consultant of any member of the Group, and employee of the shareholder or any member of the Group or any holder of any securities issued by any member of the Group (the "**Participants**") an opportunity to have a personal stake in the Company and to help (i) motivate the Participants to optimise their performance and efficiency; and (ii) attract and retain the Participants whose contributions are important to the long-term growth and profitability of the Company. The 2005 Share Option Scheme was adopted by the Company on 23 December 2005 and became effective on 5 January 2006 and unless otherwise cancelled or amended, the 2005 Share Option Scheme will remain in force for 10 years from latter date. The 2005 Share Option Scheme was terminated upon the adoption of the 2015 Share Option Scheme (as defined below) on 11 December 2015.

The principal terms of the 2005 Share Option Scheme are:

(i) The total number of shares in respect of which options may be granted under the 2005 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of Company's shares in issue unless the 10% limit has been refreshed on shareholders' approval. The 10% limit was refreshed on shareholders' approval at a special general meeting of the Company held on 27 May 2011. The maximum number of shares issuable under share options granted to each Participant in the 2005 Share Option Scheme within any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

(ii) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in a general meeting of the Company.

(iii) The offer of a grant of share options may be accepted within 28 days from the date of offer, to be accompanied by payment of a consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the board of directors in its absolute discretion.

(iv) The exercise price of the share options is determinable by the directors, but shall be at least the highest of (i) the closing price of the Company's shares in the Stock Exchange's daily quotation sheet on the date of the offer of grant of the share options; (ii) the average closing price of the Company's shares in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

39. SHARE OPTION SCHEMES (continued)

(a) The Company (continued)

2015 Share Option Scheme

On 11 December 2015 (the "**2015 Adoption Date**"), the Company adopted a new share option scheme (the "**2015 Share Option Scheme**") and terminated the 2005 Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2015 Share Option Scheme is to recognise the contribution or future contribution of the Eligible Participants (as defined in the scheme) to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-calibre Eligible Participants in line with the performance goals of the Relevant Companies (as defined in the scheme). Eligible Participants include but are not limited to the directors and any employees of the Group. Unless otherwise cancelled or amended, the 2015 Share Option Scheme will remain in force for 10 years from the 2015 Adoption Date.

The principal terms of the 2015 Share Option Scheme are:

(i) The maximum number of shares in respect of which options may be granted under the 2015 Share Option Scheme and any other share option schemes of the Company (i) shall not exceed 10% of the total number of Company's shares in issue on the 2015 Adoption Date; (ii) shall not exceed 30% of the shares of the Company in issue from time to time; and (iii) to each Eligible Participant in the 2015 Share Option Scheme and within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of the limits set out in (i) and (iii) is subject to the approval of the shareholders of the Company and the shareholders of LSD (so long as the Company is a subsidiary of LSD under the Listing Rules) in the respective general meetings.

(ii) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval by the independent non-executive directors of each of the Company and LSD (so long as the Company is a subsidiary of LSD under the Listing Rules). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to the approval of the shareholders of the Company and the shareholders of LSD (so long as the Company is a subsidiary of LSD under the Listing Rules) in the respective general meetings.

(iii) The offer of a grant of share options may be accepted within 30 days from the date of offer, to be accompanied by payment of a consideration of HK$1 per share option by the grantee. The exercise period of the share options granted is determined by the board of directors in its absolute discretion.

(iv) The subscription (or exercise) price of any share options is determinable by the directors, and shall be at least the highest of (i) the closing price of the Company's shares in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Company's shares in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share on the date of the offer of grant.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

39. SHARE OPTION SCHEMES (continued)

(a) The Company (continued)

2015 Share Option Scheme (continued)

Details of the share options outstanding granted under the 2005 Share Option Scheme and the 2015 Share Option Scheme during the year are as follows:

	2019		2018	
	Number of underlying shares comprised in share options '000	**Weighted average exercise price per share HK$**	Number of underlying shares comprised in share options '000	Weighted average exercise price per share HK$
Outstanding at the beginning of the year	**32,851**	**1.43**	33,451	1.44
Lapsed during the year	**(19,705)**	**1.61**	(1,000)	1.61
Cancelled during the year	**(13,146)**	**1.16**	–	–
Granted during the year	**–**	**–**	400	1.36
Outstanding at the end of the year	**–**	**–**	32,851	1.43

On 27 May 2018, Transtrend Holdings Limited ("**Offeror**", a wholly-owned subsidiary of LSD) made a conditional voluntary general cash offer ("**Offer**") to (i) acquire all of the issued shares of the Company (other than those already held or agreed to be acquired by LSD, the Offeror or their respective subsidiaries), and (ii) to cancel all the outstanding share options of the Company ("**eSun Option Offer**"). The Offer closed on 22 August 2018 and the Offeror had received valid acceptances of eSun Option Offer in respect of 13,145,696 underlying shares of the Company. Such share options had been cancelled upon the eSun Option Offer becoming unconditional in all respects on 8 August 2018. In addition, pursuant to the terms of the 2005 Share Option Scheme and the 2015 Share Option Scheme, all share options of the Company in respect of 19,704,969 underlying shares of the Company not exercised before the close of the Offer (i.e. 22 August 2018) have lapsed upon the close of the Offer. Details are set out in a joint announcement of the Company, LSD and the Offeror dated 22 August 2018.

No share options have been granted under the 2015 Share Option Scheme during the year ended 31 July 2019.

39. SHARE OPTION SCHEMES (continued)

(a) The Company (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018

Number of underlying shares comprised in share options '000	Exercise price* per share HK$	Exercise period (dd/mm/yyyy)
6,216	0.92	05-06-2012 to 04-06-2022
24,435	1.61	18-01-2013 to 17-01-2023
1,800	0.73	21-01-2015 to 20-01-2025
400	1.36	19-01-2018 to 18-01-2028
32,851		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other specific changes in the Company's share capital.*

The fair value of the share option granted during the year ended 31 July 2018 was HK$238,000, which was recognised as a share option expense during the year.

The fair value of equity-settled share options granted during the year ended 31 July 2018 was estimated as the date of grant, using a binomial option pricing model ("**Binomial Model**"), taking into account the terms and conditions upon which the options were granted.

As at 31 July 2018, the Company had 32,850,665 underlying shares comprised in share options outstanding under the 2005 Share Option Scheme and the 2015 Share Option Scheme which represented approximately 2.20% of the Company's shares in issue as at that date.

39. SHARE OPTION SCHEMES (continued)

(b) MAGHL

MAGHL Share Option Scheme

On 18 December 2012, MAGHL adopted a share option scheme (the "**MAGHL Share Option Scheme**") which will remain in force for 10 years and terminated the share option scheme which was previously adopted by MAGHL on 19 November 2009 and became effective on 24 November 2009 (the "**MAGHL Old Share Option Scheme**") as (i) MAGHL has become a subsidiary of the Company in June 2011 and Rule 23.01(4) of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") requires the relevant provisions of the MAGHL Share Option Scheme which are required to be approved by the shareholders/independent non-executive directors of MAGHL to be simultaneously approved by the shareholders/independent non-executive directors of the Company; and (ii) the Company would like to have a unified set of share option scheme rules for its subsidiaries. The purpose of the MAGHL Share Option Scheme is to recognise the contribution or future contribution of the eligible participants for their contribution to MAGHL Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-calibre eligible participants in line with the performance goals of MAGHL Group or the affiliated companies. Eligible participants include any employee, director, officer or consultant of MAGHL Group and the affiliated companies, and any other group or classes of participants which the board of the directors of MAGHL, in its absolute discretion, considers to have contributed or will contribute, whether by way of business alliance or other business arrangements, to the development and growth of MAGHL Group.

The principal terms of the MAGHL Share Option Scheme are:

(a) The total number of MAGHL's shares which may be issued upon exercise of all share options to be granted under the MAGHL Share Option Scheme and all options to be granted under any other share option schemes of any member of MAGHL (the "**Other Schemes**") must not in aggregate exceed 10% of the total number of MAGHL's shares in issue as at 18 December 2012 (the "**MAGHL Scheme Limit**").

(b) Subject to (a) above and the approval of the shareholders of MAGHL and the Company (so long as MAGHL is a subsidiary of the Company under the GEM Listing Rules) at the respective general meetings, MAGHL may refresh the MAGHL Scheme Limit at any time, provided that such limit as refreshed must not exceed 10% of the total number of shares of MAGHL in issue as at the date of approval of such refreshed limit. The refreshment of the MAGHL Scheme Limit was approved by MAGHL's and the Company's shareholders at the respective annual general meetings held on 11 December 2015.

39. SHARE OPTION SCHEMES (continued)

(b) MAGHL (continued)

MAGHL Share Option Scheme (continued)

The principal terms of the MAGHL Share Option Scheme are: (continued)

(c) Subject to (a) above and the approval of the shareholders of MAGHL and the Company (so long as MAGHL is a subsidiary of the Company under the GEM Listing Rules) at the respective general meetings, MAGHL may grant the options beyond the 10% limit, provided that the options in excess of such limit are granted only to the eligible participants specifically identified by MAGHL before such shareholders' approval is sought.

(d) The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the MAGHL Share Option Scheme and the Other Schemes must not in aggregate exceed 30% of the issued share capital of MAGHL from time to time.

(e) The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the MAGHL Share Option Scheme and the Other Schemes (including both exercised and outstanding share options) in any 12-month period up to and including the date of grant must not exceed 1% of the total number of shares of MAGHL in issue at any time. Any further grant of share options in excess of this limit must be separately approved by the shareholders of MAGHL and the Company (so long as MAGHL is a subsidiary of the Company under the GEM Listing Rules) at the respective general meetings with such eligible participant and his associates abstaining from voting.

(f) Any grant of share options to a director, chief executive or substantial shareholder of MAGHL, or to any of their respective associates, is subject to approval in advance by the independent non-executive directors of each of MAGHL and the Company (so long as MAGHL is a subsidiary of the Company under the GEM Listing Rules).

(g) Any grant of share options to a substantial shareholder or an independent non-executive director of MAGHL, or to any of their respective associates, in excess of 0.1% of the shares of MAGHL in issue at any time and with an aggregate value (based on the closing price of MAGHL's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, must be approved by the shareholders of MAGHL and the Company (so long as MAGHL is a subsidiary of the Company under the GEM Listing Rules) in advance at the respective general meetings.

(h) The offer of a grant of share options may be accepted within 30 days from the date of offer, together with payment of a nominal consideration of HK$1 for the grant by the grantee.

(i) The exercise period of the share options granted is determined by the directors of MAGHL provided that such period must not be longer than 10 years from the date upon which any share option is granted in accordance with the MAGHL Share Option Scheme.

(j) The exercise price of the share options is determined by the directors of MAGHL, but shall be at least the highest of (i) the closing price of MAGHL's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of MAGHL's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of a MAGHL's share.

Share options do not confer rights on the holders to dividends or to vote at general meetings of MAGHL.

No share options have been granted by MAGHL under the MAGHL Share Option Scheme since its adoption.

39. SHARE OPTION SCHEMES (continued)

(c) Lai Fung

2003 Lai Fung Share Option Scheme

On 21 August 2003, Lai Fung adopted a share option scheme (as amended on 8 August 2018) (the "**2003 Lai Fung Share Option Scheme**") for the purpose of providing incentives and rewards to Eligible Participants (as defined in the scheme) who contribute to the success of Lai Fung Group's operations. Eligible Participants of the 2003 Lai Fung Share Option Scheme include the directors and any employees of the Lai Fung Group. Unless otherwise cancelled or amended, the 2003 Lai Fung Share Option Scheme will remain in force for 10 years from that date. The 2003 Lai Fung Share Option Scheme was terminated upon the adoption of the 2012 Lai Fung Share Option Scheme (as defined below) on 18 December 2012.

The maximum number of share options permitted to be granted under the 2003 Lai Fung Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Lai Fung in issue as approved in accordance with the 2003 Lai Fung Share Option Scheme. The maximum number of shares of Lai Fung issuable under share options to each Eligible Participant in the 2003 Lai Fung Share Option Scheme within any 12-month period is limited to 1% of the shares of Lai Fung in issue at any time. Any further grant of share options in excess of this limit is subject to its shareholders' approval in a general meeting of Lai Fung.

Share options granted to a director, chief executive or substantial shareholder of Lai Fung, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of Lai Fung. In addition, any share options granted to a substantial shareholder or an independent non-executive director of Lai Fung, or to any of their respective associates, in excess of 0.1% of the shares of Lai Fung in issue at any time and with an aggregate value (based on the closing price of Lai Fung's shares on the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to its shareholders' approval in advance in a general meeting of Lai Fung.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of Lai Fung, save that such period shall not be longer than 8 years from the date of grant of the share options.

The exercise price of the share options is determined by the directors of Lai Fung, but may not be less than the highest of (i) the closing price of Lai Fung's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of Lai Fung's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Lai Fung's share.

Share options do not confer rights on the holders to dividends or to vote at general meetings of Lai Fung.

39. SHARE OPTION SCHEMES (continued)

(c) Lai Fung (continued)

2012 Lai Fung Share Option Scheme

On 18 December 2012 (the "**2012 Adoption Date**"), Lai Fung adopted a new share option scheme (the "**2012 Lai Fung Share Option Scheme**") and terminated the 2003 Lai Fung Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2012 Lai Fung Share Option Scheme is to recognise the contribution or future contribution of the Eligible Participants (as defined in the scheme) to Lai Fung Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-caliber Eligible Participants in line with the performance goals of the Relevant Companies (as defined in the scheme). Eligible Participants include but are not limited to the directors and any employees of Lai Fung Group. Unless otherwise cancelled or amended, the 2012 Lai Fung Share Option Scheme will remain in force for 10 years from the 2012 Adoption Date.

The maximum number of shares of Lai Fung which may be issued upon the exercise of all options to be granted under the 2012 Lai Fung Share Option Scheme (i) shall not exceed 10% of the shares of Lai Fung in issue on the 2012 Adoption Date; (ii) shall not exceed 30% of the shares of Lai Fung in issue from time to time; and (iii) to each Eligible Participant and within any 12-month period, is limited to 1% of the shares of Lai Fung in issue at any time. Any further grant of share options in excess of the limits set out in (i) and (iii) is subject to the approval of shareholders of Lai Fung and the shareholders of the Company (so long as Lai Fung is a subsidiary of the Company under the Listing Rules) in the respective general meetings.

Share options granted to a director, chief executive or substantial shareholder of Lai Fung, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of each of Lai Fung and the Company (so long as Lai Fung is a subsidiary of the Company under the Listing Rules). In addition, any share options granted to a substantial shareholder or an independent non-executive director of Lai Fung, or to any of their respective associates, in excess of 0.1% of the shares of Lai Fung in issue at any time and with an aggregate value (based on the closing price of Lai Fung's shares on the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to the approval of shareholders of Lai Fung and the shareholders of the Company (so long as Lai Fung is a subsidiary of the Company under the Listing Rules) in the respective general meetings.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of Lai Fung, save that such period shall not be longer than 10 years from the date of grant of share options.

The exercise price of the share options is determinable by the directors of Lai Fung, which shall be at least the highest of (i) the Stock Exchange closing price of Lai Fung's shares on the date of grant; (ii) the average Stock Exchange closing price of Lai Fung's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Lai Fung's share on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at general meetings of Lai Fung.

39. SHARE OPTION SCHEMES (continued)

(c) Lai Fung (continued)

On 14 August 2017, the shareholders of Lai Fung at its extraordinary general meeting approved that every fifty issued and unissued ordinary shares of HK$0.10 each in the share capital of Lai Fung be consolidated into one ordinary share of HK$5.00 each in the share capital of Lai Fung ("**Lai Fung Shares**") which became effective on 15 August 2017 ("**Share Consolidation**"). As a result of Share Consolidation, the exercise price of the outstanding share options and number of shares of Lai Fung comprised in the outstanding share options had been adjusted.

Details of the share options outstanding granted under the 2003 Lai Fung Share Option Scheme and the 2012 Lai Fung Share Option Scheme during the year are as follows:

	2019		2018	
	Number of Lai Fung's underlying shares comprised in share options '000	**Weighted average exercise price per Lai Fung Share* HK$**	Number of Lai Fung's underlying shares comprised in share options '000	Weighted average exercise price per Lai Fung Share* HK$
Outstanding at the beginning of the year	**10,234**	**10.92**	10,064	10.82
Granted during the year	**580**	**10.18**	450	13.52
Exercised during the year	**–**	**–**	(220)	11.40
Lapsed during the year	**–**	**–**	(60)	11.40
Outstanding at the end of the year	**10,814**	**10.88**	10,234	10.92

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Lai Fung' share capital.*

Note: *The outstanding number of underlying shares of Lai Fung comprised in share options as at 1 August 2017 and the related weighted average exercise price per share of Lai Fung are adjusted to reflect the effect of the Share Consolidation.*

39. SHARE OPTION SCHEMES (continued)

(c) Lai Fung (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of Lai Fung's underlying shares comprised in shares options '000	Exercise price* per Lai Fung Share HK$	Exercise period (dd/mm/yyyy)
1,010	**6.65**	**12-06-2012 to 11-06-2020**
8,374	**11.40**	**18-01-2013 to 17-01-2023**
220	**9.50**	**26-07-2013 to 25-07-2023**
180	**8.00**	**16-01-2015 to 15-01-2025**
450	**13.52**	**19-01-2018 to 18-01-2028**
580	**10.18**	**22-01-2019 to 21-01-2029**
10,814		

2018

Number of Lai Fung's underlying shares comprised in shares options '000	Exercise price* per Lai Fung Share HK$	Exercise period (dd/mm/yyyy)
1,010	6.65	12-06-2012 to 11-06-2020
8,374	11.40	18-01-2013 to 17-01-2023
220	9.50	26-07-2013 to 25-07-2023
180	8.00	16-01-2015 to 15-01-2025
450	13.52	19-01-2018 to 18-01-2028
10,234		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Lai Fung's share capital.*

39. SHARE OPTION SCHEMES (continued)

(c) Lai Fung (continued)

Other than the grant of share options comprising 580,000 underlying Lai Fung Shares, no share options were granted, exercised or cancelled, or lapsed in accordance with the terms of the 2003 Lai Fung Share Option Scheme and the 2012 Lai Fung Share Option Scheme during the year. The closing price of Lai Fung Shares immediately before the date of grant of share options was HK$10.12. The fair value of share options granted during the year was approximately HK$2,322,000 (HK$4.0033 each) (2018: HK$2,441,000 (HK$5.4236 each)) which was recognised as a share option expense of approximately HK$2,322,000 (2018: HK$2,441,000) and HK$743,000 (2018: HK$806,000) (before and after capitalisation to properties under development/investment properties under construction/construction in progress, respectively) during the year ended 31 July 2019.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Binomial Model, taking into account the terms and conditions upon which the share options were granted.

As at 31 July 2019, 1,009,591 and 9,804,526 underlying shares of Lai Fung comprised in share options were outstanding under the 2003 Lai Fung Share Option Scheme and the 2012 Lai Fung Share Option Scheme, respectively, which represented approximately 0.3% and 3.0% of Lai Fung Shares in issue, respectively as at that date.

40. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 July 2019 and 2018 are presented in the consolidated statement of changes in equity.

Statutory reserve

Pursuant to the relevant laws and regulations in the PRC, the subsidiaries and the joint ventures of the Company, which are registered in the PRC, are required to transfer a certain percentage of their net profit after tax (after offsetting any prior years' losses, if any) to statutory reserve funds which are restricted as to use, until the balance of the statutory reserve funds reaches 50% of the entity's registered capital.

41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below. The summarised financial information below represents amounts after fair value adjustments and before intragroup eliminations.

Lai Fung

	2019 HK$'000	2018 HK$'000
Current assets	**6,543,297**	5,421,532
Non-current assets	**25,712,006**	24,234,338
Total assets	**32,255,303**	29,655,870
Current liabilities	**(3,550,243)**	(2,323,625)
Non-current liabilities	**(11,831,735)**	(10,491,386)
Total liabilities	**(15,381,978)**	(12,815,011)
Equity attributable to non-controlling interests of the Group	**8,283,417**	8,285,294
Turnover	**1,461,249**	950,822
Other revenue	**59,182**	191,237
Fair value gains on investment properties	**214,823**	859,333
Share of profits and losses of joint ventures	**(22,002)**	403,368
Share of profits and losses of associates	**(40)**	(192)
Expenses	**(1,344,005)**	(1,235,569)
Profit for the year	**369,207**	1,168,999
Other comprehensive loss for the year	**(276,879)**	(222,388)
Total comprehensive income for the year	**92,328**	946,611
Profit attributable to the non-controlling interests	**149,580**	523,134
Other comprehensive loss attributable to the non-controlling interests	**(132,949)**	(106,898)
Total comprehensive income attributable to the non-controlling interests	**16,631**	416,236
Dividend paid to non-controlling interests	**29,087**	17,954
Net cash flows from operating activities	**127,335**	131,104
Net cash flows used in investing activities	**(1,083,186)**	(1,474,578)
Net cash flows from financing activities	**1,490,323**	661,881
Net cash inflows/(outflows)	**534,472**	(681,593)

41. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

MAGHL

	2019 HK$'000	2018 HK$'000
Current assets	**988,797**	1,066,319
Non-current assets	**96,449**	110,573
Total assets	**1,085,246**	1,176,892
Current liabilities	**(878,087)**	(531,126)
Non-current liabilities	**–**	(300,000)
Total liabilities	**(878,087)**	(831,126)
Equity attributable to non-controlling interests of the Group	**59,026**	99,168
Turnover	**573,732**	489,931
Other income	**10,519**	11,118
Share of profits and losses of joint ventures	**(4,153)**	924
Share of profit and loss of an associate	**432**	(15,638)
Expenses	**(725,436)**	(770,536)
Loss for the year	**(144,906)**	(284,201)
Other comprehensive income/(loss) for the year	**1,478**	(11)
Total comprehensive loss for the year	**(143,428)**	(284,212)
Loss attributable to the non-controlling interests	**(45,555)**	(96,768)
Other comprehensive income attributable to the non-controlling interests	**592**	173
Total comprehensive loss attributable to the non-controlling interests	**(44,963)**	(96,595)
Net cash flows from/(used in) operating activities	**(67,829)**	22,913
Net cash flows from/(used in) investing activities	**(11,312)**	598
Net cash flows from/(used in) financing activities	**(14,386)**	5,522
Net cash inflows/(outflows)	**(93,527)**	29,033

42. DISPOSAL OF SUBSIDIARIES

	Notes	2019 HK$'000	2018 HK$'000
Net assets/(liabilities) disposed of:			
Property, plant and equipment	12	**34**	590
Inventories		**–**	12,903
Films under production	24	**14,813**	–
Debtors		**–**	9,939
Deposits, prepayments and other receivables		**6,416**	919
Cash and cash equivalents		**5,372**	4,195
Creditors and accruals		**(34,723)**	(18,516)
Deposits received, deferred income and contract liabilities		**–**	(10,837)
		(8,088)	(807)
Non-controlling interests		**3,963**	–
Release of foreign exchange reserve		**(15)**	(880)
		(4,140)	(1,687)
Gain on disposal of subsidiaries	7	**4,720**	2,487
Consideration		**580**	800
Satisfied by:			
Consideration receivable		**580**	–
Cash		**–**	800
		580	800

An analysis of cash flows in respect of the disposal of the subsidiaries is as follows:

	2019 HK$'000	2018 HK$'000
Cash consideration	**–**	800
Cash and cash equivalents disposed of	**(5,372)**	(4,195)
Net cash outflow in respect of the disposal of the subsidiaries	**(5,372)**	(3,395)

43. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest-bearing bank loans HK$'000	Convertible notes HK$'000	Fixed rate senior notes HK$'000	Guaranteed notes HK$'000	Loans from a joint venture HK$'000	Loans from a fellow subsidiary/ a related company HK$'000	Other borrowings HK$'000	Put option liabilities HK$'000
At 1 August 2017	3,167,489	182,346	2,080,366	–	842,510	–	252,618	–
Changes from financing cash flows	757,895	(196,840)	(2,243,270)	2,712,758	(207,929)	650,000	–	–
Interest expense	24,626	14,494	6,349	2,260	–	–	5,647	–
Exchange realignment	(29,057)	–	156,555	10,500	10,117	–	(424)	–
At 31 July 2018 and 1 August 2018	3,920,953	–	–	2,725,518	644,698	650,000	257,841	–
Changes from financing cash flows	2,173,312	–	–	–	(633,081)	300,000	41,560	280,532
Interest expense	26,309	–	–	4,440	–	–	5,766	–
Exchange realignment	(30,444)	–	–	(9,101)	(11,617)	–	(833)	(812)
At 31 July 2019	**6,090,130**	**-**	**-**	**2,720,857**	**-**	**950,000**	**304,334**	**279,720**

44. COMMITMENTS AND OPERATING LEASE ARRANGEMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Contracted but not provided for:		
Construction, development and resettlement costs	**1,288,365**	2,060,785
Acquisition of items of property, plant and equipment	**635**	4,581
	1,289,000	2,065,366

44. COMMITMENTS AND OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessor

As at 31 July 2019, certain properties of the Group were leased under operating lease arrangements with lease terms up to twenty years (2018: twenty years). The terms of the leases generally require the tenants to pay security deposits.

As at 31 July 2019, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**493,920**	495,919
In the second to fifth years, inclusive	**1,016,810**	947,304
After five years	**181,247**	130,413
	1,691,977	1,573,636

In addition, the operating lease arrangements for certain investment properties of the Group are contingent based on the turnover of the tenants pursuant to the terms and conditions as set out in the respective agreements. As the future turnover of the tenants could not be accurately determined, the relevant contingent rent has not been included above.

(c) As lessee

As at 31 July 2019, the Group leased certain of its office premises and cinemas under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to fifteen years (2018: one to fifteen years).

As at 31 July 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**216,140**	218,016
In the second to fifth years, inclusive	**689,133**	731,504
After five years	**336,410**	480,895
	1,241,683	1,430,415

Certain non-cancellable operating leases included in the above are subject to contingent rent payments, which are charged at progressive rates from 10% to 40% (2018: 10% to 40%) of the excess of the annual gross box-office takings of the related cinema premises over certain levels of box-office income as determined in the respective lease agreements.

45. PLEDGE OF ASSETS

Details of the Group's bank loans secured by certain assets of the Group, are included in note 31 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 July 2019

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	220,751	–	220,751
Derivative financial instruments	20,581	–	20,581
Film investments	8,466	–	8,466
Debtors	–	232,507	232,507
Financial assets included in deposits, prepayments and other receivables	17,899	189,636	207,535
Pledged and restricted time deposits and bank balances	–	1,173,895	1,173,895
Cash and cash equivalents	–	2,598,020	2,598,020
	267,697	4,194,058	4,461,755

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade creditors	977,867
Financial liabilities included in other creditors and accruals	1,490,916
Financial liabilities included in deposits received	424,478
Interest-bearing bank loans	6,090,130
Other borrowings	304,334
Loans from a fellow subsidiary	950,000
Guaranteed notes	2,720,857
	12,958,582

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 July 2018

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	–	114,361	114,361
Derivative financial instruments	2,531	–	–	2,531
Debtors	–	181,599	–	181,599
Financial assets included in deposits, prepayments and other receivables	–	196,076	–	196,076
Pledged and restricted time deposits and bank balances	–	1,073,762	–	1,073,762
Cash and cash equivalents	–	2,136,039	–	2,136,039
	2,531	3,587,476	114,361	3,704,368

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade creditors	261,917
Financial liabilities included in other creditors and accruals	1,569,649
Financial liabilities included in deposits received	193,352
Interest-bearing bank loans	3,920,953
Other borrowings	257,841
Loans from a joint venture	644,698
Loans from a related company	650,000
Guaranteed notes	2,725,518
	10,223,928

47. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value:

	Carrying amounts		Fair values	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Financial assets				
Financial assets at fair value through profit or loss	**220,751**	–	**220,751**	–
Available-for-sale investments	**–**	66,380	**–**	66,380
Film investments	**8,466**	–	**8,466**	–
Financial assets included in deposits, prepayments and other receivables	**17,899**	–	**17,899**	–
Derivative financial instruments	**20,581**	2,531	**20,581**	2,531
	267,697	68,911	**267,697**	68,911

Liabilities for which fair values are disclosed:

	Carrying amounts		Fair values	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Financial liabilities				
Guaranteed notes	**2,720,857**	2,725,518	**2,667,667**	2,580,772
	2,720,857	2,725,518	**2,667,667**	2,580,772

Each year, the Group's management appoints external valuers to be responsible for the external valuations of the Group's derivative financial instruments (the "**Financial Instrument Valuers**"). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Financial Instrument Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

(i) the fair values of financial assets at fair value through profit or loss and available-for-sale investments are based on quoted prices/values from the fund manager or using a discounted cash flow valuation model;

(ii) derivative financial instruments, being the cross currency swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot rates and interest rate curves as well as other unobservable inputs. The carrying amounts of the derivative financial instruments are the same as their fair values;

(iii) the fair values of guaranteed notes are based on quoted market prices.

47. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

2019	Valuation techniques	Significant unobservable inputs	Value of unobservable inputs	Notes
Derivative financial instruments – CCS – Guaranteed Notes	Discounted cash flow with swaption approach	Expected exposure at default – counterparty	HK$1.58 million to HK$19.87 million	1
		Expected exposure at default – Lai Fung	HK$3.45 million to HK$20.96 million	2
		Credit spread – counterparty	9.07 basis point to 106.44 basis point	3
		Credit spread – Lai Fung	302.23 basis point to 517.02 basis point	4
		Loss given default ratio – counterparty non-performance risk	80%	5
		Loss given default ratio – Lai Fung's credit risk	60%	6

2018	Valuation techniques	Significant unobservable inputs	Value of unobservable inputs	Notes
Derivative financial instruments – CCS – Guaranteed Notes	Discounted cash flow with swaption approach	Expected exposure at default – counterparty	HK$4.91 million to HK$20.00 million	1
		Expected exposure at default – Lai Fung	HK$8.57 million to HK$33.95 million	2
		Credit spread – counterparty	17.36 basis point to 129.32 basis point	3
		Credit spread – Lai Fung	423.62 basis point to 703.18 basis point	4
		Loss given default ratio – counterparty non-performance risk	80%	5
		Loss given default ratio – Lai Fung's credit risk	60%	6

Notes:

1. *The higher the expected exposure at default – counterparty, the lower the fair value of CCSs*
2. *The higher the expected exposure at default – Lai Fung, the higher the fair value of CCSs*
3. *The higher the credit spread – counterparty, the lower the fair value of CCSs*
4. *The higher the credit spread – Lai Fung, the higher the fair value of CCSs*
5. *The higher the loss given default ratio – counterparty, the lower the fair value of CCSs*
6. *The higher the loss given default ratio – Lai Fung, the higher the fair value of CCSs*

Other than the above financial assets and liabilities, the carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 July 2019 and 31 July 2018.

47. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 31 July 2019	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through profit or loss	**–**	**199,976**	**20,775**	**220,751**
Film investments	**–**	**–**	**8,466**	**8,466**
Financial assets included in deposits, prepayments and other receivables	**–**	**–**	**17,899**	**17,899**
Derivative financial instruments	**–**	**–**	**20,581**	**20,581**

As at 31 July 2018	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets				
Available-for-sale investments	–	66,380	–	66,380
Derivative financial instruments	–	–	2,531	2,531

During the years ended 31 July 2019 and 2018, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Liabilities for which fair value are disclosed:

The Group's financial liabilities for which fair values are disclosed include guaranteed notes, fair value of which were based on quoted market prices and were categorised in Level 1 as at 31 July 2019 and 31 July 2018.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, guaranteed notes, other borrowings, loans from a joint venture, a fellow subsidiary and a related company, derivative financial instruments, pledged and restricted time deposits and bank balances, and cash and cash equivalents. The main purpose of these financial instruments is to raise fund for the Group's operations. The Group has various other financial assets and liabilities such as debtors and creditors, which arise directly from its operations, and available-for-sale investments which are held by the Group for investment purpose.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces relatively conservative strategies on its risk management. Except for the Lai Fung Group entered into the CCS – Fixed Rate Senior Notes to manage the foreign currency risk arising from the Group's fixed rate senior notes (which matured on 25 April 2018), the Group has not designated any derivatives and other instruments for hedging purposes. During the year ended 31 Jul 2018, the Group has entered into CCS – Guaranteed Notes with financial institutions, which will mature in 2023, and the guaranteed notes have been effectively converted into the HK$ denominated debts. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As the Group has some interest-bearing assets, the Group's income and operating cash flows will be affected by changes in market interest rates. The Group's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the post-tax profit (through the impact on floating rate borrowings, net of amounts capitalised to properties under development, investment properties under construction, construction in progress and other borrowings at prime rate) and the equity of the Group.

	Change in interest rate %	Impact on post-tax profit HK$'000	Impact on equity* HK$'000
2019	**+0.25**	**(9,113)**	**(5,557)**
	-0.25	**9,113**	**5,557**
2018	+0.25	(5,652)	(3,241)
	-0.25	5,652	3,241

* *excluding amounts attributable to non-controlling interests*

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Foreign currency risk

RMB

Certain subsidiaries (mainly the Lai Fung Group) of the Group have transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$.

The Lai Fung Group had CCS – Fixed Rate Senior Notes to minimise the foreign currency exposures as detailed in note 35 to the financial statements. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider other appropriate hedging measures in future as may be necessary.

US$

Certain of the Group's monetary assets and liabilities are denominated in US$. The Group is exposed to foreign exchange risk arising from the exposure of US$ against HK$.

The Group considered the impact on the equity from the change in US$ exchange rate was nominal at the end of the reporting period since HK$ is pegged to US$.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the post-tax profit and equity (due to changes in the fair value of monetary assets and liabilities) of the Group.

	Change in exchange rate %	Impact on post-tax profit HK$'000	Impact on equity* HK$'000
2019			
If US$/HK$ weakens against RMB	**5**	**8,717**	**2,644**
If US$/HK$ strengthens against RMB	**5**	**(8,137)**	**(2,539)**
2018			
If US$/HK$ weakens against RMB	5	11,761	4,126
If US$/HK$ strengthens against RMB	5	(11,023)	(3,978)

* *excluding amounts attributable to non-controlling interests*

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk

The Group, other than the Lai Fung Group, trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Lai Fung Group maintains various credit policies for different business operations as described in note 25 to the financial statements. In addition, trade debtor balances are being closely monitored on an ongoing basis and the Lai Fung Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 July 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 July 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Debtors*	–	–	–	241,917	241,917
Financial assets included in deposits, prepayments and other receivables					
Normal**	184,481	–	–	–	184,481
Doubtful**	–	–	69,804	–	69,804
Pledged and restricted time deposits and bank balances	1,173,895	–	–	–	1,173,895
Cash and cash equivalents	2,598,020	–	–	–	2,598,020
	3,956,396	–	69,804	241,917	4,268,117

* *For debtors to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 25 to the financial statements.*

** *The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk (continued)

Maximum exposure as at 31 July 2018

The credit risk of the Group's other financial assets, which comprised pledged and restricted time deposits and bank balances, cash and cash equivalents, financial assets at fair value through profit or loss, available-for-sale investments, amounts due from associates and joint ventures and other receivables, arose from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables and trade debtors are disclosed in notes 23 and 25 to the financial statements, respectively.

(iv) Liquidity risk

The Group's objective is to ensure adequate funds are available to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 July 2019				
Trade creditors	**977,867**	**–**	**–**	**977,867**
Financial liabilities included in other creditors and accruals	**1,490,916**	**–**	**–**	**1,490,916**
Financial liabilities included in deposits received	**276,602**	**147,876**	**–**	**424,478**
Interest-bearing bank loans	**878,481**	**5,297,406**	**1,285,665**	**7,461,552**
Other borrowings	**41,440**	**268,682**	**–**	**310,122**
Loans from a fellow subsidiary	**949,775**	**52,464**	**–**	**1,002,239**
Guaranteed notes	**154,720**	**3,119,793**	**–**	**3,274,513**
Inflow of derivative financial instruments	**(154,720)**	**(3,119,793)**	**–**	**(3,274,513)**
Outflow of derivative financial instruments	**147,043**	**3,100,694**	**–**	**3,247,737**
	4,762,124	**8,867,122**	**1,285,665**	**14,914,911**

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 July 2018				
Trade creditors	261,917	–	–	261,917
Financial liabilities included in other creditors and accruals	1,569,649	–	–	1,569,649
Financial liabilities included in deposits received	50,472	142,880	–	193,352
Interest-bearing bank loans	345,328	4,036,345	220,207	4,601,880
Other borrowings	–	263,488	–	263,488
Loans from a joint venture	238,444	429,708	–	668,152
Loans from a related company	32,052	684,271	–	716,323
Guaranteed notes	155,234	3,285,394	–	3,440,628
Inflow of derivative financial instruments	(155,234)	(3,285,394)	–	(3,440,628)
Outflow of derivative financial instruments	147,043	3,247,737	–	3,394,780
	2,644,905	8,804,429	220,207	11,669,541

The Group is also exposed to liquidity risk through the granting of financial guarantees, further details of which are disclosed in note 49 to the financial statements. The earliest period in which the guarantee could be called is less than 12 months.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group manages its capital structure to ensure that the Group will be able to continue to operate as a going concern while maximising the return to stakeholders through the setting up and maintenance of an optimal debt and equity capital structure.

The capital structure of the Group mainly consists of guaranteed notes, interest-bearing bank loans, other borrowings, cash and cash equivalents, pledged and restricted time deposits and bank balances and equity attributable to owners of the Company comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. They will take into consideration the cost of capital and the risks associated with each class of capital prevailing in the market. Based on recommendations of the directors, the Group will balance its overall capital structure through various types of equity fund raising exercises as well as maintaining appropriate types and levels of debts.

The Group monitors capital using, inter alia, a gearing ratio which is net debt divided by total equity. As at 31 July 2019, the consolidated net assets attributable to the owners of the Company amounted to approximately HK$9,098.6 million (2018: HK$9,259.5 million).

49. CONTINGENT LIABILITIES

(a) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of property units developed by the Group. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with accrued interest owed by the end-buyers in default. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the property ownership certificates for the relevant properties are issued and/or the end-buyers have fully repaid the mortgage loans. As at 31 July 2019, in respect of these guarantees, the contingent liabilities of the Group amounted to approximately HK$566,825,000 (2018: HK$520,342,000).

(b) The Group had provided corporate guarantees to certain banks in connection with the banking facilities granted to certain subsidiaries and the respective letter of credit and letter of guarantee facilities of approximately HK$4,856,000 (2018: HK$5,618,000) were utilised.

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**6,179,818**	6,538,550
Deposits, prepayments and other receivables	**9,858**	9,857
Total non-current assets	**6,189,676**	6,548,407
CURRENT ASSETS		
Deposits, prepayments and other receivables	**642**	630
Loans to subsidiaries	**416,259**	–
Cash and cash equivalents	**42,239**	51,880
Total current assets	**459,140**	52,510
CURRENT LIABILITIES		
Creditors and accruals	**2,478**	4,307
Loans from a fellow subsidiary	**700,000**	–
Total current liabilities	**702,478**	4,307
NET CURRENT ASSETS/(LIABILITIES)	**(243,338)**	48,203
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,946,338**	6,596,610
NON-CURRENT LIABILITIES		
Other borrowings	**209,888**	204,122
Loans from a fellow subsidiary	**50,000**	–
Loans from a related company	**–**	450,000
Total non-current liabilities	**259,888**	654,122
Net assets	**5,686,450**	5,942,488
EQUITY		
Issued capital	**745,927**	745,927
Reserves (Note)	**4,940,523**	5,196,561
Total equity	**5,686,450**	5,942,488

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 1 August 2017	4,257,351	845,455	15,293	279,611	5,397,710
Loss for the year and total comprehensive loss for the year	–	–	–	(201,387)	(201,387)
Release of reserve upon lapse of share options	–	–	(477)	477	–
Equity-settled share option arrangements	–	–	238	–	238
At 31 July 2018 and 1 August 2018	4,257,351	845,455	15,054	78,701	5,196,561
Loss for the year and total comprehensive loss for the year	–	–	–	(256,038)	(256,038)
Release of reserve upon cancellation and lapse of share options	–	–	(15,054)	15,054	–
At 31 July 2019	**4,257,351**	**845,455**	**–**	**(162,283)**	**4,940,523**

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Capital Artists Limited	Hong Kong	HK$44,394,500	–	100	Music production and distribution
East Asia Films Distribution Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment in and licensing of film rights
East Asia Music (Holdings) Limited	Hong Kong	HK$10,000	–	100	Music production and distribution
eSun High-Tech Limited	Hong Kong	HK$2	–	100	Investment in and licensing of film rights
eSun.Com Limited	Hong Kong	HK$2	–	100	Investment in and licensing of film rights
Fortune Spark Limited	Hong Kong	HK$10,000,000	–	100	Cinema operation
Glynhill International Limited	Hong Kong	HK$915,631,997	100	–	Investment holding
Grandeur Limited	Hong Kong/ Macau	HK$1	–	100	Property holding
Intercontinental Film Distributors (H.K.) Limited	Hong Kong	HK$700,400	–	95	Film distribution
Intercontinental Group Holdings Limited ("**IGHL**") *(Note a)*	Cayman Islands/ Hong Kong	US$50,000	–	95	Investment holding
Intercontinental Video Limited	Hong Kong	HK$100	–	95	Distribution of movie video compact discs, digital video discs and blu-ray discs
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Property holding

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lauro Game Entertainment Limited	Hong Kong	HK$100,000	–	95	Trading of gaming products
Media Asia Distribution Ltd.	British Virgin Islands/ Hong Kong	US$80	–	100	Film distribution, licensing of film rights and film investment
Media Asia Distribution (HK) Limited	Hong Kong	HK$2	–	100	Film distribution and film library management
Media Asia Entertainment Group Limited *	Bermuda/ Hong Kong	HK$100	–	100	Investment holding
Media Asia Films (BVI) Ltd.	British Virgin Islands/ Hong Kong	US$7	–	100	Film production, licensing of films and investment holding
Media Asia Group Limited	Hong Kong	HK$2	–	100	Investment holding and provision of management services
Media Asia Holdings Ltd. *	British Virgin Islands/ Hong Kong	US$6,831	–	100	Investment holding
Mega Star Video Distribution (HK) Limited	Hong Kong	HK$2	–	100	Licensing of film products and film rights and sale of video products
Merit Worth Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Multiplex Cinema Limited	Hong Kong	HK$71,000,000	–	95	Operation of cinemas

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Perfect Advertising & Production Company Limited	Hong Kong	HK$10,000	–	95	Provision of advertising services, video duplication services, and translating and subtitling of television programmes
Perfect Sky	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Rich & Famous Talent Management Group Limited	Hong Kong	HK$100	–	75	Provision of artiste management services
Silver Glory Securities Limited *	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Style International Management Group Limited	Hong Kong	HK$1	–	58.2	Provision of artiste management services
Sunny Horizon Investments Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
寰亞風尚演藝經紀(上海)有限公司 ## *	PRC/ Mainland China	RMB2,000,000#	–	58.2	Provision of artiste management services
洲立影藝(深圳)有限公司 ## *	PRC/ Mainland China	HK$10,000,000#	–	95	Operation of cinemas
廣東五月花電影城有限公司 (“廣東五月花”) ## *	PRC/ Mainland China	RMB100,000,000#	–	100	Operation of cinemas

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
東亞豐麗演出經紀(北京)有限公司 ## *	PRC/ Mainland China	RMB25,000,000#	–	100	Provision of artiste management and performance agency services
MAGHL (Listed on the GEM of the Stock Exchange)	Incorporated in the Cayman Islands and continued in Bermuda/ Hong Kong	HK$21,360,568	–	67.56	Investment holding
Champ Universe Limited ^	Hong Kong	HK$1	–	67.56	Provision of management services
Media Asia Distribution (Beijing) Co. Ltd ^ ## *	PRC/ Mainland China	RMB50,000,000#	–	67.56	Film distribution
Media Asia Entertainment Limited ^	Hong Kong	HK$100	–	67.56	Entertainment activity production, and event and film investments
Media Asia Film International Limited ^	British Virgin Islands	US$100	–	67.56	Film investment and production and event investment
Media Asia Film Production Limited ^	Hong Kong	HK$100	–	67.56	Investment holding and film production
寰亞文化傳播（中國）有限公司 ^ ## *	PRC/ Mainland China	HK$38,000,000#	–	67.56	Entertainment activity production
Lai Fung (Listed on the Stock Exchange) *(Note b)*	Cayman Islands/ Hong Kong	HK$1,636,934,825	–	50.55	Investment holding
Canvex Limited ^^	Hong Kong	HK$2	–	50.55	Property investment
Eastern Power Limited ^^	Hong Kong	HK$1	–	50.55	Investment holding

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Eternal Medal Limited ^^	Hong Kong	HK$1	–	50.55	Investment holding
Fore Bright Limited ^^	Hong Kong	HK$1	–	50.55	Investment holding
Frank Light Development Limited ^^	Hong Kong	HK$19,999,999	–	50.55	Investment holding
Gentle Code Limited ^^	Hong Kong	HK$1	–	50.55	Investment holding
Gentle Holdings Limited ^^	Hong Kong	HK$1	–	50.55	Investment holding
Goldthorpe Limited ^^ *	British Virgin Islands/ Hong Kong	US$1	–	50.55	Investment holding
Good Strategy Limited ^^	British Virgin Islands/ Mainland China	US$1	–	50.55	Property investment
Grand Wealth Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Grosslink Investment Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Guangzhou Gentle Code Real Estate Company Limited ^^ ## *	PRC/ Mainland China	US$22,830,000#	–	50.55	Property investment
Guangzhou Gentle Real Estate Company Limited ^^ ## *	PRC/ Mainland China	US$17,080,000#	–	50.55	Property development
Guangzhou Grand Wealth Properties Limited ^^ ### *	PRC/ Mainland China	HK$280,000,000#	–	50.55	Property development and investment

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Guang Bird Property Development Limited ("**Guangzhou Guang Bird**") ^^ ### *	PRC/ Mainland China	US$79,600,000#	–	50.55	Property development and investment
Guangzhou Honghui Real Estate Development Company Limited ^^ ### *	PRC/ Mainland China	RMB79,733,004#	–	50.55	Property development and investment
Guangzhou Jieli Real Estate Company Limited ^^ ## *	PRC/ Mainland China	HK$168,000,000#	–	50.55	Property investment
Hankey Development Limited ^^	Hong Kong	HK$10,000	–	50.55	Investment holding
Kingscord Investment Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Lai Fung Company Limited ^^	Hong Kong	HK$20	–	50.55	Investment holding
Manful Concept Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Nicebird Company Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Pearl Merge Limited ^^	Hong Kong	HK$1	–	60.44	Investment holding
Rosy Commerce Holdings Limited ^^	British Virgin Islands/ Hong Kong	US$100	–	60.44	Investment holding
Shanghai Hankey Real Estate Development Company Limited ^^ ##	PRC/ Mainland China	US$47,600,000#	–	50.55	Property investment
Shanghai HKP Property Management Limited ^^ ## *	PRC/ Mainland China	US$150,000#	–	50.55	Property management

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Hu Xin Real Estate Development Company Limited ^^ ##	PRC/ Mainland China	US$40,000,000#	–	50.55	Property development and investment
Shanghai Li Xing Real Estate Development Company Limited ^^ ## *	PRC/ Mainland China	US$36,000,000#	–	50.55	Property investment
Shanghai Wa Yee Real Estate Development Company Limited ^^ Δ *	PRC/ Mainland China	US$10,000,000#	–	48.02	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Company Limited ^^ ##	PRC/ Mainland China	US$79,800,000#	–	50.55	Property investment
Sunlite Investment Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Wide Angle Development Limited ^^	Hong Kong	HK$2	–	50.55	Investment holding
Winfield Concept Limited ^^	Hong Kong	HK$1	–	60.44	Investment holding
Win Merge Limited ^^	Hong Kong	HK$1	–	60.44	Investment holding
Zhongshan Bao Li Properties Development Company Limited ("**Zhongshan Bao Li**") ^^ ## *	PRC/ Mainland China	HK$960,000,000#	–	50.55	Property development and investment
廣州高樂物業管理有限公司 ^^ ø *	PRC/ Mainland China	RMB1,100,000#	–	50.55	Property management
上海麗港物業管理有限公司 ^^ ø *	PRC/ Mainland China	RMB500,000#	–	50.55	Property management
上海麗星房地產發展有限公司 ^^ ## *	PRC/ Mainland China	RMB630,000,000#	–	50.55	Property development
中山高樂物業管理有限公司 ^^ ø *	PRC/ Mainland China	RMB500,000#	–	50.55	Property management

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name of company	Place of incorporation/ registration and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
珠海橫琴麗新文創天地有限公司 ("**麗新文創**") ^^ ## *	PRC/ Mainland China	RMB1,900,000,000#	–	60.44	Property development and investment
珠海橫琴創新方娛樂有限公司 ^^ ## *	PRC/ Mainland China	RMB500,000,000#	–	60.44	Development and operation of and investment in cultural, leisure, entertainment and related facilities
珠海橫琴創新方文化創意有限公司 ^^ ## *	PRC/ Mainland China	RMB52,000,000#	–	60.44	Development and operation of and investment in cultural, leisure, entertainment and related facilities
珠海橫琴創新方發展有限公司 ("**創新方發展**") ^^ ## *	PRC/ Mainland China	RMB2,500,000,000#	–	50.55	Property development and investment

* *Subsidiaries whose statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network*

\# *The registered capital of these subsidiaries were fully paid up, except for 廣東五月花, Guangzhou Guang Bird, 麗新文創, 創新方發展 and Zhongshan Bao Li of which the respective capital of RMB13,000,000 (equivalent to approximately HK$14,754,000), US$13,247,000 (equivalent to approximately HK$103,645,000), RMB636,000,000 (equivalent to approximately HK$721,825,000), RMB1,581,610,000 (equivalent to approximately HK$1,795,040,000) and HK$27,600,000 were unpaid as at 31 July 2019. Subsequent to the reporting date, the respective registered capital of 麗新文創 and Zhongshan Bao Li of RMB22,400,000 (equivalent to approximately HK$25,423,000), and HK$27,600,000 have been paid.*

\## *Registered as wholly-foreign-owned enterprises under the laws of the PRC*

\### *Registered as co-operative joint ventures under the laws of the PRC*

Δ *Registered as equity joint ventures under the laws of the PRC*

Ø *Registered as domestic enterprises under the laws of the PRC*

^ *They are subsidiaries of MAGHL.*

^^ *They are subsidiaries of Lai Fung.*

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

As at 31 July 2019, the Group had unpaid capital contributions of approximately HK$161,001,000 (2018: HK$165,371,000) to three (2018: three) non-wholly-owned subsidiaries and a wholly-owned subsidiary (2018: one) which are not included in the above table.

As at 31 July 2018, charges over securities accounts and share mortgage in respect of 165,485,406 ordinary shares in Lai Fung and 1,415,132,837 ordinary shares of MAGHL were made to secure certain interest-bearing bank loans of the Group which were repaid during the year ended 31 July 2018. During the year ended 31 July 2019, the charges over securities accounts and share mortgage have been released (note 31).

As at 31 July 2019 and 31 July 2018, the entire equity interests in certain subsidiaries were pledged to secure certain bank borrowings of the Group (note 31(e)).

Notes:

(a) Interest in IGHL

During the year ended 31 July 2019, the Group acquired 10% equity interest in IGHL at a cash consideration of HK$37,500,000. As a result, the equity interest of the Group in IGHL increased from 85% to 95% during the year. The change in the Group's shareholding interest in IGHL resulted in a decrease in other reserve of HK$28,852,000 and a decrease in the non-controlling interests of HK$8,648,000 in the consolidated statement of changes in equity.

(b) Interests in Lai Fung

For the year ended 31 July 2019

During the year ended 31 July 2019, Lai Fung issued new shares to its shareholders who had elected to receive scrip shares in lieu of a cash dividend of HK$3,225,000 under the scrip dividend scheme. As a result, the equity interest of the Group in Lai Fung decreased from 50.60% to 50.55% as at 31 July 2019. The change in the Group's shareholding interest in Lai Fung resulted in a decrease in other reserve of HK$8,257,000 and an increase in the non-controlling interests of HK$11,482,000 in the consolidated statement of changes in equity.

For the year ended 31 July 2018

During the year ended 31 July 2018, certain employees of Lai Fung have exercised share options comprising 220,000 underlying Lai Fung shares and a total cash consideration of HK$2,508,000 was received by Lai Fung. As a result, the equity interest of the Group in Lai Fung decreased from 50.81% to 50.77%. The change in the Group's shareholding interest in Lai Fung resulted in a decrease in other reserve of HK$6,406,000 and an increase in the non-controlling interests of HK$8,914,000 in the consolidated statement of changes in equity.

During the year ended 31 July 2018, Lai Fung issued new shares to its shareholders who had elected to receive scrip shares in lieu of a cash dividend of HK$14,133,000 under the scrip dividend scheme. As a result, the equity interest of the Group in Lai Fung decreased from 50.77% to 50.60% as at 31 July 2018. The change in the Group's shareholding interest in Lai Fung resulted in a decrease in hedge reserve and other reserve of HK$29,262,000 and an increase in the non-controlling interests of HK$43,395,000 in the consolidated statement of changes in equity.

52. EVENT AFTER THE REPORTING PERIOD

On 23 July 2019, Sunny Horizon Investments Limited, an indirect wholly-owned subsidiary of the Company, entered into the share sale and purchase agreement ("**SPA Agreement**") with LSD to dispose of a 20% equity interest in Rosy Commerce to LSD (or its nominee) for a consideration of HK$557,250,000 ("**Disposal**"). The completion of the Disposal was conditional upon the satisfaction of certain conditions as set out in the SPA Agreement ("**Conditions**") and was subject to the shareholders' approval of the Company. Details are set out in a joint announcement of the Company, LSD and LSG dated 23 July 2019 and the Company's circular dated 30 August 2019.

On 20 September 2019, a resolution in relation to the Disposal proposed at the special general meeting of the Company was duly passed by way of poll. Details are set out in an announcement of the Company dated 20 September 2019. The Disposal took place on 24 September 2019 after the satisfaction of the Conditions on 20 September 2019.

53. COMPARATIVE FIGURES

Certain comparative amounts in the financial statements have been reclassified to conform with the current year's presentation. In the opinion of the directors of the Company, this presentation would better reflect the financial performance of the Group.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 October 2019.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the members ("**Members**") of eSun Holdings Limited ("**Company**") will be held at Grand Ballroom 1, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Friday, 20 December 2019 at 10:00 a.m. ("**2019 AGM**") for the following purposes:

AS ORDINARY BUSINESS

1. To consider and adopt the audited financial statements of the Company for the year ended 31 July 2019 and the reports of the directors and the independent auditor thereon.

2. To re-elect the retiring directors of the Company ("**Directors**") and to authorise the board of Directors ("**Board**") to fix the Directors' remuneration.

3. To re-appoint Ernst & Young, Certified Public Accountants ("**Ernst & Young**"), as the independent auditor of the Company for the ensuing year and to authorise the Board to fix their remuneration.

AS SPECIAL BUSINESS

4. To consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(A) "**THAT**

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company ("**Directors**") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional ordinary shares of the Company ("**Shares**"), and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined); or

(ii) an issue of Shares upon the exercise of rights of subscription, exchange or conversion under the terms of any of the options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are exchangeable or convertible into Shares); or

(iii) an issue of Shares as scrip dividends pursuant to the Bye-laws of the Company ("**Bye-laws**") from time to time; or

(iv) an issue of Shares under any award or option scheme or similar arrangement for the grant or issue to eligible participants under such scheme or arrangement of Shares or rights to acquire Shares,

shall not exceed 20% of the total issued Shares as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution,

"Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company ("**AGM**"); or

(ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the members of the Company ("**Members**") in a general meeting; or

(iii) the expiration of the period within which the next AGM is required by law or the Bye-laws to be held; and

"Rights Issue" means an offer of Shares open for a period fixed by the Directors to the holders of Shares whose names appear on the Register of Members and/or the Hong Kong Branch Register of Members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

(B) "**THAT** the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to buy back the issued Shares on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") or on any other stock exchange on which the Shares may be listed and which is recognised by the Securities and Futures Commission of Hong Kong ("**SFC**") and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws, regulations and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period;

(b) such mandate shall authorise the Directors to procure the Company to buy back the Shares at such prices and on such terms as the Directors may at their absolute discretion determine;

(c) the aggregate number of Shares to be bought back by the Company pursuant to this Resolution during the Relevant Period shall not exceed 10% of the total issued Shares as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution, "Relevant Period" means the period from the date of passing this Resolution until whichever is the earliest of:

(i) the conclusion of the next AGM; or

(ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members in a general meeting; or

(iii) the expiration of the period within which the next AGM is required by law or the Bye-laws to be held."

(C) "**THAT** subject to the passing of the Ordinary Resolutions Nos. (A) and (B) set out in agenda item 4 contained in the notice convening this meeting, the general mandate granted to the Directors and for the time being in force to exercise all the powers of the Company to allot, issue and deal with additional Shares, and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the addition thereto of such number of Shares which has been bought back by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the powers of the Company to buy back such Shares, provided that such number of Shares shall not exceed 10% of the total issued Shares as at the date of passing this Resolution."

By Order of the Board
eSun Holdings Limited
Wong Lai Chun
Company Secretary

Hong Kong, 21 November 2019

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
11/F., Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Notes:

*(1) A form of proxy for use at 2019 AGM or its adjournment (as the case may be) is enclosed with the Company's Annual Report for the year ended 31 July 2019 ("**Annual Report**") and is also available on the respective websites of the Company and the Stock Exchange. A Member entitled to attend and vote at 2019 AGM convened by the above notice ("**Notice**") or its adjourned meeting (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more Shares, more than one) proxy to attend 2019 AGM and, on a poll, vote on his/her/its behalf in accordance with the Bye-laws. A proxy need not be a Member.*

*(2) To be valid, a form of proxy, duly signed and completed together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), must be lodged with Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong ("**Registrar**"), at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding 2019 AGM or its adjourned meeting (as the case may be) and in default, the proxy will not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending in person and voting at 2019 AGM or its adjourned meeting (as the case may be) should they so wish. In that event, the said form(s) of proxy shall be deemed to be revoked.*

The contact phone number of the Registrar is (852) 2980 1333.

(3) To ascertain the entitlements to attend and vote at 2019 AGM, Members must lodge the relevant transfer document(s) and share certificate(s) at the office of the Registrar no later than 4:30 p.m. on Monday, 16 December 2019 for registration.

(4) Where there are joint registered holders of any Shares, any one of such joint holders may attend and vote at 2019 AGM or its adjourned meeting (as the case may be), either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto. However, if more than one of such joint holders are present at 2019 AGM or its adjourned meeting (as the case may be) personally or by proxy, then one of such holders so present whose name stands first in the Register/Branch Register of Members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

(5) Concerning agenda item 2 of the Notice,

(i) in accordance with Bye-law 87 of the Bye-laws, Mr. Lui Siu Tsuen, Richard (an Executive Director) and Madam U Po Chu (a Non-executive Director) will retire from office as Directors by rotation at 2019 AGM and, being eligible, offer themselves for re-election; and

(ii) in accordance with Rule 13.74 of the Listing Rules, the requisite details of the aforesaid Directors are set out in the section headed "Biographical Details of Directors" of the Annual Report.

*(6) Concerning agenda item 3 of the Notice, the Board (which concurs with the Audit Committee of the Company) has recommended that subject to the approval of Members at 2019 AGM, Ernst & Young will be re-appointed independent auditor of the Company for the year ending 31 July 2020 ("**Year 2020**"). Members should note that in practice, independent auditor's remuneration for the Year 2020 cannot be fixed at 2019 AGM because such remuneration varies by reference to the scope and extent of audit and other works which the independent auditor is being called upon to undertake in any given year. To enable the Company to determine the amount of such independent auditor's remuneration charged as operating expenses for the Year 2020, Members' approval to delegate the authority to the Board to fix the independent auditor's remuneration for the Year 2020 is required, and is hereby sought, at 2019 AGM.*

(7) Details concerning Ordinary Resolutions (A), (B) and (C) under agenda item 4 of the Notice are set out in the circular of the Company dated 21 November 2019 which will be despatched to Members together with the Annual Report.

(8) In compliance with Rule 13.39(4) of the Listing Rules, voting on all resolutions proposed in the Notice shall be decided by way of a poll at 2019 AGM.

(9) If a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a "black" rainstorm warning signal is expected to be in force at any time after 7:00 a.m. on the date of 2019 AGM, 2019 AGM will be postponed. The Company will post an announcement on the respective websites of the Company (www.esun.com) and the Stock Exchange (www.hkexnews.hk) to notify Members of the date, time and venue of the rescheduled 2019 AGM.

If a tropical cyclone warning signal No. 8 or above or a "black" rainstorm warning signal is lowered or cancelled at or before 7:00 a.m. on the date of 2019 AGM and where conditions permit, 2019 AGM will be held as scheduled. 2019 AGM will be held as scheduled when an amber or red rainstorm warning signal is in force.

Having considered their own situations, Members should decide on their own whether they would attend 2019 AGM under a bad weather condition and if they do so, they are advised to exercise care and caution.

Cinema Operation

providing a complementary distribution channel for the Group's

Film Production and **Distribution Businesses**

戲院營運為本集團電影製作及發行業務

提供輔助之分銷渠道

Movie Town in New Town Plaza in Shatin, Hong Kong

香港沙田新城市廣場之「Movie Town」

eSun Holdings Limited
豐德麗控股有限公司
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

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Website 網址 : http://www.esun.com
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Stock Code on Hong Kong Stock Exchange: 571
於香港聯合交易所股份代號: 571